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FINANCIAL CONDITION OF THE BANK AND THRIFT INDUSTRIES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE

OF THE

COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

PART 3

MARCH 5, 12, 13, 20; AND APRIL 9, 1986

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FINANCIAL CONDITION OF THE BANK AND THRIFT INDUSTRIES

WEDNESDAY, MARCH 5, 1986

House of Representatives,
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance,
Committee on Banking, Finance and Urban Affairs,
Washington, DC.

The subcommittee met at 10:02 a.m., in room 2128 of the Rayburn House Office Building, Hon. Fernand J. St Germain (chairman of the subcommittee), presiding.

Presiding: Chairman St Germain; Representatives Annunzio, Barnard, LaFalce, Oakar, Vento, Lehman, Cooper, Roemer, Kanjorski, Manton, Wylie, Leach, McKinney, McCollum, Wortley, Parris, Roukema, Bereuter, and Roth.

Chairman St Germain. The subcommittee will come to order.

Today, we begin a detailed look at the condition of the Nation's depository institutions and the Federal machinery that supports them.

Much of the current concern centers on the continuing problems of the savings and loan industry, and the impact of falling oil prices, declining agricultural economies and international debt on commercial banks.

Despite the mounting problems, the administration has been painfully slow to react. Yesterday, administration spokesmen, at long last, came up to the Hill with a handful of ideas that appear to have every possibility for raising more questions than answers.

Over the months, the administration has seemed to come up with one basic prescription: "Take two deregulation pills and call us in the morning." It's a prescription that make the patient feel good overnight, but it does not cure the illness.

While we grapple with long-range solutions, the depository institutions continue to enjoy the greatest array of bailout buckets available to any industry in America. As we found in Continental Illinois, the insurance funds and that Golden Gate known as the discount window can be used with great subtlety and creativity. For many smaller institutions, of course, the Federal support mechanism looks much more like a guillotine than a fur-lined bailout bucket.

In addition to the long-existing assistance of the Federal Reserve, the FDIC and the FSLIC, the Congress in 1982 added to the list by authorizing "net worth certificates" that could be issued to bridge temporary problems when an institution's net worth fell below acceptable levels. We also authorized a suspension of laws limiting or prohibiting various acquisitions and mergers and allowed these to be consummated on an "emergency" basis.

This authority expires on April 15 and this subcommittee and this Congress must decide whether to extend, expand or end the program. Therefore, much of the early testimony in these hearings will touch on this issue, as well as the adequacy of other aspects of the Federal support mechanism.

This morning, we have the following witnesses:

William J. Anderson, Director, General Government Division, General Accounting Office; Robert Sahadi, Acting Director, Office of Policy and Economic Research, Federal Home Loan Bank Board; Jay Janis, Gibraltar Savings and Loan Association, Beverly Hills, CA, appearing on behalf of the U.S. League of Savings Institutions; and Kenneth F.X. Albers, chairman, Provident Savings Bank, Jersey City, NJ, appearing on behalf of the National Council of Savings Institutions.

At this point, I recognize our ranking minority member for a brief opening statement.

Mr. Wylie.

Mr. WYLIE. Mr. Chairman, thank you very much for calling these important and timely hearings. Deposit insurance and the condition of depository institutions must necessarily be of utmost concern to all of us. The safety and soundness of our financial institutions is of critical importance to every American. It is not a partisan issue and I stand ready to try to be helpful on an admittedly difficult problem.

We are in the midst of a period of enormous financial change, change forced by developments in the marketplace. Changes are taking place because of a variety of reasons Congress has not been able to act. It is time for Congress to recognize that we are at a critical point and we need to make some hard decisions necessary to set a rational national policy.

Many have stressed the urgency of action. Just 2 weeks ago, Chairman Volcker made a strong plea for legislation when he delivered the monetary policy report and yet, it is not a front-burner issue that attracts an active constituency.

While I have not had an opportunity to thoroughly review his statement, Treasury Under Secretary George Gould testified yesterday in support of nonbank banks, or consumer banks, as he calls them. Mr. Gould indicated that the administration opposes a narrow bill plugging the so-called nonbank bank loophole and, in fact, suggested that potential consumer bank entrants should be encouraged to acquire thrifts, thus reducing the strain on FSLIC and bringing new capital into the industry.

That points up a different view from someone in a position of authority and points up the difficulty of developing a consensus. Mr. Chairman, I again would like to strongly encourage you to call Secretary Gould as a witness at the earliest possible time.

This morning we will want to know from the witnesses their views on the possible extension of the Garn-St Germain net-worth guarantee and emergency acquisitions programs now in place. That will provide a timely opportunity for careful consideration of a number of proposals for reform. Maybe we should make the emergency acquisition authority permanent and ease branching restrictions in unit banking States as one means of attracting private capital and providing for the continued provision of banking services in rural communities.

I would conclude by saying that I know we are in complete agreement that above all else, Congress does have the ultimate responsibility to protect and defend the safety and soundness of banks and thrifts. I wholeheartedly support your efforts in this regard, Mr. Chairman, and look forward to the testimony we will receive from our very distinguished panel today.

Thank you.

Chairman St Germain. Thank you, Mr. Wylie.

Our first witness will be Mr. Anderson, appearing on behalf of GAO. We will put your entire statement in the record and you may proceed.

STATEMENT OF WILLIAM J. ANDERSON, DIRECTOR, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. Anderson. Thank you very much, Mr. Chairman. Good morning gentlemen. It's a pleasure to be here.

My testimony this morning is going to be drawn from a report that we have prepared. I understand that each of the members has a copy before them prepared at the request of Mr. Parris. What I would like to do is visit some of the exhibits in that report and explain them, elaborate on them somewhat, because I believe that they will give the subcommittee a better insight into the problems as GAO views them of the industry.

One thing to keep in mind is that GAO does not advocate any particular position on these matters. We consider that our role is to provide this subcommittee and the Congress with information, data, and analysis, and that is what we have tried to do in this report.

I think the numbers do tell a story, but they speak for themselves.

Now with your permission, Mr. Chairman, I would like to call everybody's attention to page 14 of the report, table No. 2.

Table No. 2 presents trend information with respect to RAP, GAAP, and our own coined phrase, TAP, for Tangible Net Worth, from 1977 to 1985.

I should mention that the data base that enabled us to do this was our own unique creation, involved a little manipulation of some earlier reports which were not prepared on a basis consistent with those more recently.

Probably the most significant thing of note there is that there has been a recovery in 1985 from the nadir that was reached in 1984, basically, with most of the measures of net worth. I think it's of special importance to note the TAP column there, the Tangible Net Worth column. Note that there was, at an earlier point in time, it corresponded rather closely with the RAP measure of net worth, as well as the GAAP measure of net worth.

Beginning in 1982, it diverged significantly. Purely and simply, that results from the elimination of goodwill. The distinction between GAAP and TAP is that in order to calculate tangible net worth, goodwill was eliminated. Goodwill was introduced as a significant component, as an asset, and reflected in net worth beginning in 1982, largely as a result of all the mergers that started to occur about that time.

But, in any event, it's significant for you to recognize that.

I would like to turn to page 16 now, and table No. 3, which is an analysis of insolvent institutions and the vulnerability of the fund as a result.

You will note again that the number of institutions has diminished down to 3180 at mid-June, June 30, 1985.

I should note, Mr. Chairman, that we must rely on publicly available information to a great extent from the Bank Board and June 30, 1985 is the most recent data that we are able to work with. We have some preliminary data as of September.

I think for our purposes today, that information is accurate enough.

In any event, we found that as of June 30, 1985, there were a total of 461 institutions that were insolvent as measured on the basis of generally accepted accounting principles. These institutions had assets totaling $112.7 billion. Their GAAP net worth stood at minus $3.4 billion. The ratio of GAAP net worth to assets was minus 3.7 percent.

If you would turn to the next page and look at table 4, we extend beyond those that were insolvent and examined the number of thrifts that, although not insolvent, were still extraordinarily weak. And for our purposes, we defined that as having net worth between zero and 3 percent of assets.

You will note that there were 833 such institutions among the 3,180 thrifts. These 833 institutions had total assets of $320.6 billion. Their GAAP net worth was $5.8 billion. Their GAAP net worth to asset ratio was 1.8 percent.

Let me turn you now to the next page.

The next page is an estimate, very crude—not our estimate, by the way of what will happen, but just a measure of the impact on the fund given various assumptions on the losses that would be incurred if it were necessary to liquidate or otherwise dispose of these insolvent institutions.

Table 5 extends our analysis of insolvent institutions to segregate out from that 461 those 239 that were not only insolvent, but also had a loss in the first half of 1985.

In other words, they are continuing. They are going down the tube even further, or at least, in the short run, are adding to the losses they had previously incurred.

These 239 institutions had assets with a value of $58.8 billion. And then we have shown to the right of that four different estimates of the losses that would be incurred by the fund in the event of liquidation or mergers.

You will note that 15 percent is a figure worth looking at from this standpoint. In 1984, the last information that we had, that we had access to, 14.7 percent represented the cost of handling those institutions that were closed, 14.7 percent.

I understand from some testimony that Mr. Gray gave last month that the 1985 experience was about 23 percent. But, in any event, even at 15 percent, if it became necessary to close down all of those 239 insolvent and losing organizations, the fund could be impacted by as much as $8.8 billion. And, again, let me stress, we are not saying that that's necessarily going to happen.

The next table extends that to all of the insolvent organizations, all 461. I referred earlier to the total asset number of $112.7 billion. Again, we present the measures of the potential loss given the differing estimates on the individual proportion loss ratios, from 5 percent up to 20 percent. Again, the 15 percent, which was closest to the 14.7 percent actual for 1984, represents $16.9 billion.

Let me turn now to table 8 on page 21, which offers some information on the profitability of these institutions.

Overall, of those 3,180 institutions existing in the first half of 1985, 640, or 20 percent, showed a loss. The percentage of institutions incurring losses varied considerably depending on their net worth.

At the top of the page are shown all of those comprising the 461 that I spoke of earlier. As noted earlier, 239 of those showed a loss, 52 percent.

The next group that encompasses the first three lines, below that, zero to 1, 1 to 2, 2 to 3, of those 833, 233 showed a loss, 28 percent. With respect to the balance of thrifts in 1986, 168, or 9 percent, showed a loss.

Now, again, we have to recognize that this reflects that the industry's situation has been improving since the deep time of troubles in 1981 and 1982. For example, in 1981, 79 percent of all the thrifts showed a loss. Seventy-nine percent as opposed to this year's 20 percent. In 1982, 74 percent of all the thrifts showed a loss as opposed to this year's 20 percent.

An item of great interest to the subcommittee, obviously, and one that I see my time running out on, is the prognosis regarding these extremely weak situations. I don't have the time to explore that. We don't have a definitive set of views or a projection on what will happen, but maybe in the course of the discussion, Mr. Chairman, we will have an opportunity to give some further insight into that.

Chairman **St Germain**. The Chair is going to exercise a little prerogative and allow you to take another 2 to 3 minutes.

Mr. **Anderson**. Thank you very much, sir.

One of the things we have tried to get some kind of a feel on is what's going to happen with these insolvent and unprofitables.

Obviously, it is not absolutely necessary that they will, of necessity, go down the drain. I mean, in fact, there have been some instances where, given that additional time that Garn-St Germain intended to provide these organizations, some were successful, in fact, in recovering.

On the other hand, I would say that the prognosis is not too good, especially for those that have been unprofitable in recent years.

Some analysis that we did in trying to get some better insights into the composition of the assets and the liabilities of these organizations and contrast them with the thrift industry generally, I would like to pass out—it's two pages, sir, if I may have someone take up to the stand and distribute. Could you do that, please? Let me pass some down to my colleagues here so they can follow me as well.

What I had asked my staff to do, Mr. Chairman, was try to give me some sense of what the portfolio might look like again for the industry generally and then specifically for the unprofitable thrifts that we are concerned about.

The top page provides some typical numbers that you might find across the industry in terms of the composition of the asset portfolio.

The second page contrasts that with the type of organization that we are concerned about here. The principal distinction is in that bottom category, nonearning assets, in particular, repossessions, where you will find that they have almost four times as much repossessed property as the typical industry thrift.

And I think that that's a principal part of the problem. They are already saddled with bad decisions or things beyond their control affecting the local economy that have resulted in a poor grade investment portfolio.

Given that situation, I think the opportunities for getting better, at least in the real short run, are not too bright. I know there have been some studies done—I understand a Prof. Mark Flannery comes to mind—that would indicate that the get-well time for some of those organizations would be extremely long, ranging from 5 to 20 years, even based, perhaps, on some reasonably optimistic picture of their prospects.

I would like to stop right there, Mr. Chairman, and be prepared to respond later.

[The following GAO briefing report to the Hon. Stan Parris entitled "Thrift Industry Problems—Potential Demands on the FSLIC Insurance Fund," dated February 1986, was submitted for the record by Mr. Anderson:]

United States General Accounting Office

GAO

Briefing Report to
the Honorable Stan Parris
House of Representatives

February 1986

THRIFT INDUSTRY PROBLEMS

Potential Demands on the FSLIC Insurance Fund

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT DIVISION

FEB 12 1986

B-221644

The Honorable Stan Parris
House of Representatives

Dear Mr. Parris:

On Friday, October 18, 1985, you requested that we brief you on the condition of the thrift industry and its implications for the financial condition of the Federal Savings and Loan Insurance Corporation's (FSLIC) fund. Shortly thereafter we provided you with calendar year 1984 information and agreed to transmit similar information for mid-1985 when it became available. This briefing report has been prepared to fulfill that agreement.

In recent months growing concerns have been expressed about the condition of the thrift industry. In October 1985, the Chairman of the Federal Home Loan Bank Board stated in testimony the need for FSLIC to take control of as many as 70 thrift institutions. Studies issued by the Bank Board's research staff have indicated that a growing portion of the industry is technically insolvent.[1] These studies also provide information on the potential demands on FSLIC for dealing with these insolvent institutions. Despite these concerns, overall industry profits were projected by the U.S. League of Savings Institutions to be over $5 billion in 1985, breaking the previous record of $3.9 billion set in 1978.

In general, the information contained in this report indicates that the thrift industry is composed of two segments: one with firms which are insolvent and generally unprofitable and the other, larger segment that is solvent and generally profitable. The condition of the poorly performing segment raises questions about the dollar amount of assistance that may potentially be demanded from the FSLIC fund.

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[1] An insolvent institution has negative net worth measured here either under Regulatory Accounting Principles (RAP) or Generally Accepted Accounting Principles (GAAP).

OBJECTIVES, SCOPE, AND METHODOLOGY

It is the purpose of this briefing report to provide information on the financial performance of the thrift industry and the implications of the industry's financial condition for the financial demands likely to be placed upon FSLIC. An examination of the resources available to the fund for dealing with these demands is an important area of inquiry. However, it is beyond the scope of this report.

Because of the many legislative and economic events that have directly affected the thrift industry in recent years, our analysis covers the period from 1977 through the first half of 1985. The best sources of data on individual FSLIC-insured thrift institutions are the financial statements that all institutions are required to file with the Bank Board. These reports were submitted semi-annually through the end of 1983 and quarterly beginning in March of 1984.

When moving to the quarterly reporting schedule, the Bank Board revised its report content and format. As a result, the report data were no longer consistent over time. We converted the data from the the pre-1984 reports to the format used in the more recent quarterly reports. The result is a consistent set of data on the thrift industry for the entire period from 1977 through mid-1985. We did not, however, independently verify the accuracy of the reported data. We have used these data to calculate various measures of industry financial condition such as return on assets and measures of net worth under three accounting concepts: regulatory accounting principles (RAP), generally accepted accounting principles (GAAP), and tangible net worth (TAP). Of these accounting concepts, GAAP accounting is the most widely recognized and is used within the commercial banking industry.

The Bank Board has been moving to reinstate its use for the thrift industry. For these reasons and except where otherwise indicated, this report uses GAAP accounting principles.[2] Financial results are tabulated for the industry as a whole and for certain of its segments which have similar characteristics.

RESULTS

The data contained in the tables and figures which follow provide information on the condition of the industry, its implications for the possible demands that might be placed on the fund, and the ramifications of implementing one of several recently suggested policy options to buttress the financial resources of FSLIC. Though the tables are largely self-explanatory, in the remainder of this letter we briefly describe their contents.

The significant losses experienced during the industry's crises of 1981-82 were reversed in 1983. From that time through mid-1985, the industry as a whole has been profitable. However, even during the first half of 1985, the return on assets remained low by historical standards. Average industry net worth declined in nearly uninterrupted fashion from the end of 1979 until the first half of 1985 when there was some improvement. Because this improvement is so recent we cannot determine whether it will be sustained. (See tables 1 and 2 and figure 1.)

Despite the industry's return to profitability and the recent improvement in its average net worth, the number of thrift institutions which were insolvent under GAAP continued to grow through the first half of 1985. By June of 1985, there were 461 institutions with assets of $112.7 billion that were technically insolvent because they had negative GAAP net worth. (See table 3.) There were also 833 thrift institutions (down from 909 at the end of 1984) with GAAP net worth between 0 and 3 percent of assets.[3] These institutions had total assets of $320.6 billion. (See table 4.) In sum, by the middle of 1985 there were nearly 1300 out of 3180 FSLIC-insured institutions whose financial condition was weak when judged by conventional standards of financial strength. The assets of these 1300 institutions totalled $433.3 billion and comprised 42.8 percent of the industry's total assets. While we classify these institutions as financially weak, it is not our purpose to suggest that they will all need assistance.

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[2] We have modified the thrift net worth data according to GAAP standards. With respect to income, it is difficult or impractical to convert the financial report data collected by the Bank Board to GAAP values. For example, under GAAP, loan origination fees should be recognized as current income to the extent that they cover actual underwriting costs. Fees collected in excess of that amount should be amortized over the life of the underlying loans. The Bank Board's data do not allow loan origination fees to be separated except in an arbitrary fashion. This and other, similar problems do not affect most calculations involving assets, liabilities, and net worth.

If there were signs that GAAP-insolvent thrift institutions were recovering, the level of concern over the condition of the industry and its implications for potential demands on FSLIC's resources probably would not be high. However, the data indicate that through the middle of 1985 many of the GAAP-insolvent institutions in the industry continued to experience a deterioration in their financial condition because of losses.

Tables 5 and 6 (pp. 19-20) present the potential cost to FSLIC under two hypothetical scenarios for merging or closing institutions in the weakest sector of the thrift industry. In table 5, estimates of potential demands on the FSLIC are presented assuming all institutions that are both GAAP-insolvent and unprofitable are merged or liquidated. Because of uncertainty over the realizable value of assets, estimates of cost to FSLIC are presented using various ratios of realizable value. For example, assuming the sale of assets yielded 95 cents on the dollar, FSLIC losses to close or merge these 239 institutions would total about $2.9 billion. Should assets yield only 80 cents on the dollar, FSLIC costs could total about $11.8 billion. As a point of reference, FSLIC's realization on the assets of failed institutions during 1984 was 85.3 cents on the dollar.

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[3] Classification of thrift institutions with GAAP net worth between 0 and 3 percent of assets as having low net worth is common practice in studies of the industry, including those done by the Bank Board's staff. Prior to 1980, RAP and GAAP net worth were essentially equal. During this period, the Bank Board required that institutions, to be considered healthy, have net worth of at least 5 percent RAP net worth. By 1982, FHLBB's requirement had fallen to 3 percent RAP net worth and the definition of RAP used by the Bank Board had diverged substantially from GAAP standards. We consider that GAAP accounting provides a more consistent and widely accepted measure of the thrift industry's financial condition. Moreover, given that banks are generally required to hold 6 percent GAAP net worth, we believe that classifying thrifts with less than 3 percent GAAP net worth as "low net worth institutions" is reasonable.

Table 6 shows estimates of the potential cost to the FSLIC of closing all GAAP-insolvent institutions. The potential costs of dealing with this subset of thrifts are approximately twice as high as the costs shown in table 5.

Tables 7 and 8 and figures 2 and 3 relate the profitability of thrift institutions to their net worth position. In general, the lower the net worth of an institution, the lower the level of profitability; or, in the case of institutions with negative net worth, the larger were losses as a percent of assets. Conversely, high net worth institutions were generally earning good profits in 1984 and 1985.

FSLIC and the Bank Board have the power to levy a supplemental insurance assessment on their constituent institutions equal to 1 percent of deposits. The proceeds of such an assessment would remain an asset for the thrifts. Consequently, the levy would not affect the net worth position of the institutions or the FSLIC. However, in congressional testimony on October 17, 1985, the Chairman of the FHLBB suggested that the FSLIC be given additional authority that would allow the proceeds of a 1-percent assessment to be transferred from the industry to the FSLIC. This was one of several options proposed for shoring up the fund's reserve. Such an assessment would increase fund reserves by roughly $8 billion. Table 9 shows the effect that such a levy would have on the net worth position of the industry's institutions. Had such a levy been imposed in June 1985, the number of GAAP-insolvent institutions would have increased from 461 to 634 and the number of institutions with net worth between 0 and 3 percent of assets would have increased from 833 to 1037.

Copies of the information contained in this report were provided to the Bank Board and the FSLIC for their review and comments. In commenting, the Bank Board said that we had overstated the problems facing the thrift industry as well as the difficulty that the FSLIC faces in dealing with those problems. We disagree with this reaction to the report. Our purpose was to provide factual information on the financial condition of the industry and estimates of potential demands on the fund under clearly specified assumptions. The Bank Board's comments and our response are contained in appendix II to this letter.

As arranged with your office, no further distribution of this report will be made until you publicly release its contents. At the time of its public release, or not later than 30 days from the report's date of issue, it will be distributed to various bank and thrift industry regulators and to other parties who have or who, we anticipate, will express an interest in its contents.

I trust that this briefing report is responsive to your request. If you have any questions, please call me on (202) 275-8678.

Sincerely yours,

Craig A. Simmons
Associate Director

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LIST OF ABBREVIATIONS

FHLB	Federal Home Loan Bank
FHLBB	Federal Home Loan Bank Board
FSLIC	Federal Savings and Loan Insurance Corporation
GAAP	Generally Accepted Accounting Principles
RAP	Regulatory Net Worth
TAP	Tangible Net Worth

GLOSSARY

Accrued Net Worth Certificates	Capital certificates that will be issued by the institution to FSLIC at the end of the current reporting period. Only those institutions that have received written assurance of Net Worth Certificates purchases from their Supervisory Agent may make such accruals.
Appraised Equity Capital	The excess of appraised value over book value of office land, buildings, and improvements of the insured institution or of any of its subsidiaries. The appraisal is a "one time only" appraisal as permitted by the institution's principal regulator.
Assets	Total savings and loan assets consist of mortgage loans and contracts, nonmortgage loans, repossessed real estate investments, liquid assets, fixed assets, and "other" assets.
Deferred Losses	An FHLBB regulation permits FSLIC-insured institutions to defer over time any losses (or gains) incurred on the sale of assets.
Expense	FSLIC-insured institutions report their expenditures either as operating expense, interest charges, or nonoperating expense.
GAAP Net Worth	The sum of preferred stock; permanent, reserve, or guaranty stock; paid-in surplus; income capital certificates; reserves; retained earnings; and net undistributed income; less deferred net losses (gains) on loans and other assets sold. These items are recognized under the Generally Accepted Accounting Principles defined by the Financial Accounting Standards Board.

Goodwill and Other Intangible Assets	The premium over book value of an institution's assets that an acquiring institution pays during a merger or acquisition.
Income	FSLIC-insured institutions report their earnings as operating or nonoperating income.
Income Capital Certificates	Certificates issued to the FSLIC by institutions seeking supplementary net worth. A regulatory program conceived and operated by FSLIC.
Insolvent	Value of liabilities exceeds the value of assets according to some accounting standard; regulatory accounting standards' (RAP), generally accepted accounting principles (GAAP), or some other measure. That is, net worth (or capital) is negative.
Liabilities	Consist of deposits, borrowings, and other liabilities.
Low Net Worth	Net worth, assets minus liabilities, between 0 and 3 percent of total assets.
Mortgage Loans	Loans that are secured by property, specifically residential property. Typically the principal asset of a thrift. They may be guaranteed by the Federal Housing Administration or the Veterans Administration. Where not guaranteed they are called "conventional loans."
Mutual Capital Certificates	A regulatory creation of FHLBB allowing mutual institutions to increase their regulatory net worth
Net Worth Certificates	Created by the Garn-St Germain Act, these certificates are issued by a qualified FSLIC-insured institution to FSLIC for the purpose of increasing the institution's regulatory net worth.

Net Undistributed Income	Profit earned but not distributed to stockholders.
Nonoperating Expense	The provision for losses on the sale of real estate, investment securities, loans, and other assets.
Nonoperating Income	Profit earned from the sale of real estate, investment securities, loans, and other assets.
Operating Expense	Directors' fees; officers' and employees' compensation; legal expenses; directors', officers', and employees' expenses; office occupancy expenses; furniture, fixtures, equipment, and automobile expenses; advertising; commissions and fees paid; amortization of goodwill and of deferred losses; and other operating expenses.
Operating Income	Consists of interest earned, fees received, amortized deferred gains, and net income received from real estate owned, from service corporations and subsidiaries, and from leasing operations.
Permanent, Reserve, or Guaranty Stock	Par value of common stock outstanding.
Qualifying Subordinated Debentures	Subordinated debt determined by FHLBB regulation as qualifying for inclusion in net worth.
Regulatory Net Worth	The sum of preferred stock; permanent, reserve, or guaranty stock; paid-in surplus; qualifying mutual capital certificates; qualifying subordinated debentures; appraised equity capital; net worth certificates; accrued net worth certificates; income capital certificates; reserves; undivided profits (retained earnings); and net undistributed income.

Reserves	Moneys set aside, either voluntarily or required by statute, to absorb losses or contingencies.
Retained Earnings	All unallocated profits from the current and previous report periods.
Subordinated Debentures	Reported as "borrowings" where their remaining period to maturity is less than one year or when not qualifying as net worth.
Tangible Net Worth	Equals GAAP net worth (see above) less goodwill and other intangible assets.

Table 1

Net Income After Taxes of FSLIC-Insured Institutions[a]

	Net Income ($ billions)	Rate of Return on Assets[b]
1977.2	1.72	0.79
1978.1	1.87	0.80
2	2.05	0.82
1979.1	1.82	0.69
2	1.79	0.65
1980.1	0.48	0.17
2	0.30	0.10
1981.1	-1.51	-0.48
2	-3.04	-0.95
1982.1	-3.20	-0.97
2	-0.94	-0.27
1983.1	1.12	0.30
2	0.92	0.23
1984.1	0.34	0.16
2	0.67	0.30
3	0.11	0.05
4	0.61	0.25
1985.1	0.53	0.21
2	1.22	0.48

Source: FHLBB Semiannual and Quarterly Financial Statements, 1977-1985.

Notes: [a] Net income is the sum of net operating income and net nonoperating income less income taxes, or alternatively, total income less the sum of total expenses and taxes.

[b] At an annual rate.

Table 2

Net Worth: All FSLIC-Insured Institutions (1977-1985)

	Percentages of Total Assets		
	RAP[a]	GAAP[b]	TAP[c]
1977.2[d]	5.62	5.70	5.68
1978.1	5.64	5.73	5.71
2	5.66	5.77	5.74
1979.1	5.65	5.75	5.72
2	5.70	5.80	5.78
1980.1	5.60	5.70	5.68
2	5.36	5.47	5.43
1981.1	4.95	5.06	5.02
2	4.35	4.34	3.97
1982.1	3.78	3.59	2.38
2	3.69	3.18	0.77
1983.1	3.82	3.18	0.74
2	4.02	3.33	0.66
1984.1[e]	4.00	3.20	0.61
2	3.94	3.07	0.59
3	3.86	2.94	0.47
4	3.87	2.93	0.49
1985.1	3.93	2.96	0.55
2	4.19	3.18	0.73

Source: FHLBB Semiannual and Quarterly Financial Statements, 1977-1985.

Notes: [a] RAP is regulatory net worth, which is the sum of preferred stock; permanent, reserve, or guaranty stock; paid-in surplus; qualifying mutual capital certificates; qualifying subordinated debentures;* appraised equity capital;* net worth certificates;* accrued net worth certificates;* income capital certificates; reserves; undivided profits (retained earnings); and net undistributed income.

[b] GAAP is net worth as defined under Generally Accepted Accounting Principles (GAAP). It excludes the starred components of regulatory net worth. Deferred net losses (gains) on loans and other assets sold are also excluded from assets.

[c] TAP is tangible net worth which is GAAP net worth less goodwill and other intangible assets.

[d] Data are available semiannually through 1983.

[e] Data are available quarterly in 1984 and 1985.

Table 3

FSLIC-Insured Insolvent Institutions[a] (GAAP)

	Total number of institutions	Number of GAAP insolvent institutions	Total assets of insolvent institutions	GAAP net worth	Ratio of GAAP net worth to assets
			——$ billions——		
1977.2	4,055	14	0.1	0.0	-0.6
1978.1	4,051	15	0.1	-0.0	-0.8
2	4,048	10	0.2	-0.0	-1.0
1979.1	4,040	11	0.1	-0.0	-1.1
2	4,038	15	0.1	-0.0	-1.3
1980.1	4,021	16	0.1	-0.0	-2.5
2	3,993	16	0.1	-0.0	-2.4
1981.1	3,916	21	0.7	-0.0	-1.4
2	3,743	53	11.8	-0.3	-2.5
1982.1	3,533	156	47.8	-1.0	-2.3
2	3,287	219	54.3	-2.0	-3.2
1983.1	3,206	243	59.3	-2.3	-3.5
2	3,146	279	72.6	-2.1	-3.5
1984.1	3,139	321	72.9	-2.3	-3.3
2	3,148	370	84.1	-2.9	-3.4
3	3,137	417	96.2	-3.0	-3.3
4	3,135	434	101.6	-3.3	-3.4
1985.1	3,160	455	106.5	-3.6	-3.7
2	3,180	461	112.7	-3.4	-3.7

Source: FHLBB Semiannual and Quarterly Financial Statements, 1977-1985.

Note: [a]Insolvent institutions have GAAP net worth equal to or less than zero.

Table 4

FSLIC-Insured Low Net Worth Institutions[a] (GAAP)

	Total number of institutions	Number of low net worth institutions	Total assets of low net worth institutions	GAAP net worth	Ratio of GAAP net worth to assets
			——$ billions——		
1977.2	4,055	209	8.5	0.2	2.4
1978.1	4,051	215	9.6	0.2	2.4
2	4,048	194	8.3	0.2	2.1
1979.1	4,040	200	9.1	0.2	2.3
2	4,038	193	11.9	0.2	2.4
1980.1	4,021	241	20.8	0.5	2.4
2	3,993	299	37.8	0.9	2.4
1981.1	3,916	456	78.7	1.8	2.2
2	3,743	691	130.1	2.7	2.0
1982.1	3,533	916	178.8	3.6	2.0
2	3,287	918	222.8	4.5	2.0
1983.1	3,206	939	255.6	5.1	2.0
2	3,146	926	242.9	4.8	2.0
1984.1	3,139	954	296.6	5.8	2.0
2	3,148	927	318.9	6.4	2.0
3	3,137	896	383.1	8.0	2.1
4	3,135	909	382.1	7.8	2.0
1985.1	3,160	903	363.6	6.7	1.8
2	3,180	833	320.6	5.8	1.8

Source: FHLBB Semiannual and Quarterly Financial Statements, 1977-1985.

Note: [a] Low net worth institutions have GAAP net worth between 0 and 3 percent of assets.

Table 5

Estimates of FSLIC Losses on Insolvent and Unprofitable Institutions' Asset Portfolios[a]
1984 and 1985 (first half)

(in billions of dollars)

	Number of insolvent and unprofitable institutions	Total of value of assets	Potential Dollar Losses to FSLIC[b]			
			5 percent	10 percent	15 percent	20 percent
1984[c]	255	$55.8	$2.79	$5.58	$8.37	$11.16
1985[d]	239	58.8	2.94	5.88	8.82	11.76

Source: FHLBB Semiannual and Quarterly Financial Statements, 1977-1985.

Notes: [a] Those institutions with zero or negative GAAP net worth and negative net income for the year.

[b] Dollar losses to the FSLIC assuming 5, 10, 15, 20 percent loss on assets. In 1984, the average cost to the FSLIC of dealing with failed institutions was 14.7 percent of assets.

[c] In 1984 these institutions had combined losses of $0.7 billion leaving them with GAAP net worth of -$2.0 billion.

[d] In the first half of 1985, losses of insolvent and unprofitable institutions were $0.6 billion leaving them again with -$2.0 billion GAAP net worth. Some of the 255 insolvent and unprofitable institutions from 1984 may have become profitable though perhaps still insolvent in 1985 while others may have been closed. Thus, in 1985 the number of insolvent and unprofitable thrifts fell to 239.

Table 6

Estimates of FSLIC Losses on Insolvent Institutions' Asset Portfolios, 1977-1985[a]
(in billions of dollars)

	Number of insolvent institutions	Total value of assets	Potential Dollar Losses to the FSLIC[b]			
			5 percent	10 percent	15 percent	20 percent
1977.2	14	$0.09	$0.00	$0.01	$0.01	$0.02
1978.1	15	0.07	0.00	0.01	0.01	0.01
2	10	0.19	0.00	0.02	0.02	0.04
1979.1	11	0.09	0.00	0.01	0.01	0.02
2	15	0.13	0.00	0.01	0.02	0.03
1980.1	16	0.13	0.00	0.01	0.02	0.03
2	16	0.12	0.00	0.01	0.02	0.02
1981.1	21	0.72	0.04	0.07	0.11	1.44
2	53	11.82	0.59	1.18	1.77	2.36
1982.1	156	47.75	2.39	4.78	7.16	9.55
2	219	54.34	2.72	5.43	8.15	10.87
1983.1	243	59.27	2.96	5.93	8.89	11.85
2	279	72.55	3.63	7.26	10.88	14.51
1984.1	321	72.86	3.64	7.29	10.93	14.57
2	370	84.09	4.20	8.41	12.61	16.82
3	417	96.22	4.81	9.62	14.43	19.24
4	434	101.58	5.08	10.15	15.24	20.32
1985.1	455	106.5	5.33	10.65	15.98	21.30
2	461	112.7	5.64	11.27	16.91	22.54

Source: FHLBB Semiannual and Quarterly Financial Statements, 1977-1985.

Notes: [a] Those institutions with zero or negative GAAP net worth.

[b] Dollar losses to the FSLIC assuming 5, 10, 15, and 20 percent loss on assets. In 1984, the average cost to the FSLIC of dealing with failed institutions was 14.7 percent of assets.

Table 7

Profit Experience by GAAP Net Worth
(All FSLIC-Insured Institutions)

1984 (Full Year)

GAAP net worth as a percentage of assets	Number of institutions	Rate of return on assets	Number of unprofitable institutions	Percentage of unprofitable institutions
≤ - 12%	15	-8.02	14	93%
-12 to -11%	3	-1.30	3	100%
-11 to -10%	6	- .96	6	100%
-10 to -9%	7	-1.62	5	71%
- 9 to -8%	7	-1.20	6	86%
- 8 to -7%	8	- .27	7	88%
- 7 to -6%	23	- .70	18	78%
- 6 to -5%	19	-1.23	14	74%
- 5 to -4%	45	- .31	23	51%
- 4 to -3%	55	- .54	31	56%
- 3 to -2%	58	- .46	34	59%
- 2 to -1%	89	- .08	43	48%
- 1 to 0%	99	- .21	51	52%
0 to 1%	181	- .05	84	46%
1 to 2%	301	.02	122	40%
2 to 3%	423	.26	109	26%
3 to 4%	453	.40	86	19%
4 to 5%	374	.46	43	11%
5 to 6%	269	.51	23	9%
6 to 7%	197	.58	21	11%
7 to 8%	136	.64	6	4%
8 to 9%	96	.62	9	9%
9 to 10%	71	.81	3	4%
10 to 11%	43	.83	3	7%
11 to 12%	32	.81	2	6%
over 12%	71	1.00	7	10%

Source: FHLBB Semiannual and Quarterly Financial Statements, 1977-1985.

Note: Profit is defined as total income less total expenses after taxes. This definition is not strictly consistent with GAAP. For example, the FHLBB treatment of deferred net losses may inflate profits above GAAP levels.

The number of institutions shown in this table differs from the number shown for 1984.4 in tables 3 and 4. This table was constructed using only those institutions with positive total assets for all of 1984 so as to calculate return on assets over a lengthy period. Therefore, 54 institutions that came into existence during 1984 are not included above.

Table 8

Profit Experience by GAAP Net Worth (All FSLIC-Insured Institutions)

1985 (First Half)

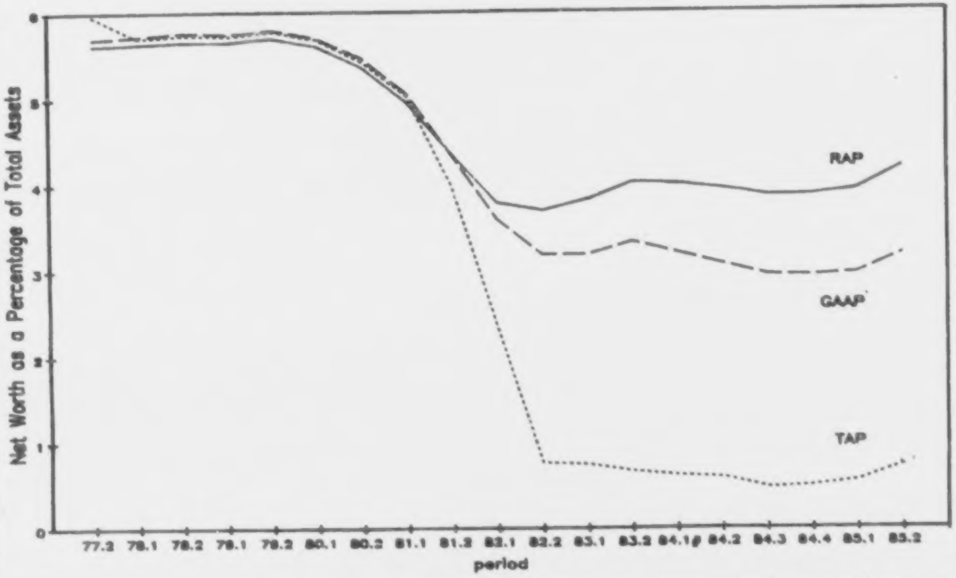
GAAP net worth as a percentage of assets	Number of institutions	Rate of return on assets	Number of unprofitable institutions	Percentage of unprofitable institutions
< - 12%	13	-6.66	12	92%
-12 to -11%	6	-1.97	3	50%
-11 to -10%	8	-2.94	5	63%
-10 to -9%	10	-3.01	7	70%
- 9 to -8%	7	-2.05	6	86%
- 8 to -7%	14	-1.22	11	79%
- 7 to -6%	17	- .50	13	76%
- 6 to -5%	17	- .50	8	47%
- 5 to -4%	41	-1.23	23	56%
- 4 to -3%	53	- .96	27	51%
- 3 to -2%	65	- .07	22	34%
- 2 to -1%	87	- .21	40	46%
- 1 to 0%	122	- .23	60	49%
0 to 1%	194	.05	79	41%
1 to 2%	254	.16	77	30%
2 to 3%	385	.63	77	20%
3 to 4%	433	.65	50	12%
4 to 5%	384	.74	24	6%
5 to 6%	287	.72	21	7%
6 to 7%	235	.77	18	8%
7 to 8%	146	.79	6	4%
8 to 9%	95	.91	6	6%
9 to 10%	78	.86	6	8%
10 to 11%	69	1.10	3	4%
11 to 12%	40	.90	5	12%
over 12%	105	.27	29	28%

Source: FHLBB Semiannual and Quarterly Financial Statements, 1977-1985.

Note: Profit, measured at an annual rate, is defined as total income less total expenses after taxes for the first 6 months of 1985. This definition is not strictly consistent with GAAP. For example, the FHLBB treatment of deferred net losses may inflate profits above GAAP levels.

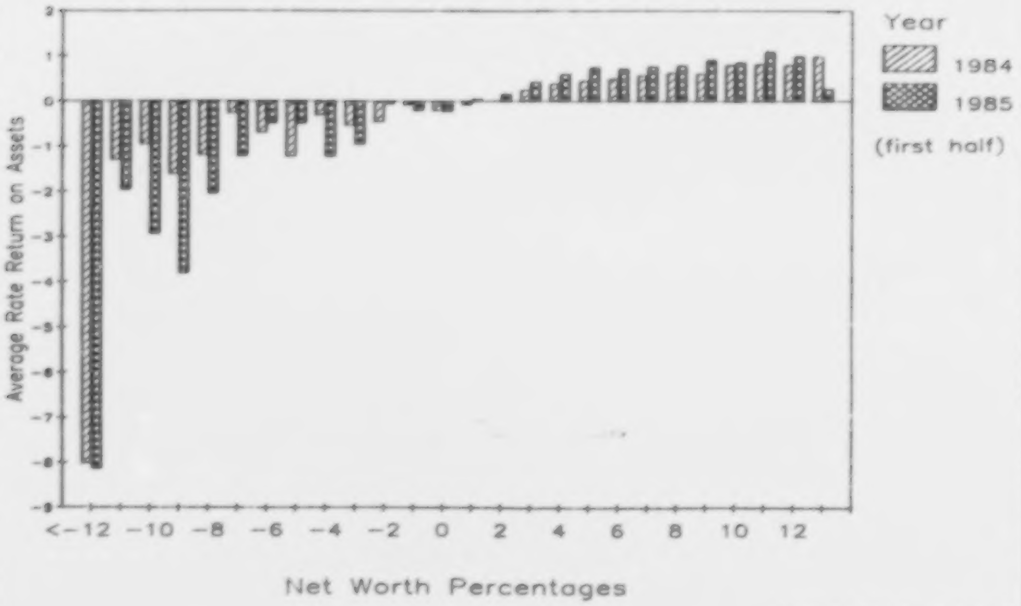
The number of institutions shown in this table differs from the number shown for 1985.2 in tables 3 and 4. This table was constructed using only those institutions with positive total assets for the first half of 1985 so as to calculate return on assets over a lengthy period. Therefore, 35 institutions that came into existence during the first half of 1985 are not included above. One of these institutions was insolvent and unprofitable in 1985; therefore, the number of insolvent and unprofitable institutions will differ from the number shown in table 5.

Figure 1
Net Worth
RAP, GAAP, and TAP
December 1977 – June 1985



Source: Table 2. # Note change in report frequency.

Figure 2
Average Annual Return on Assets
by GAAP Net Worth Percentages
1984 and 1985 (first half)



Source: Tables 7 and 8

Table 9

Changes in the Number of Financially Weak Thrifts That Would Have Resulted from Imposing a 1-Percent FSLIC Recapitalization Levy in June 1985[a]

	Insolvent institutions[b]		Low net worth Institutions[c]	
	RAP net worth	GAAP net worth	RAP net worth	GAAP net worth
Actual number of problem thrifts in June 1985	88	461	766	833
Estimated number of problem thrifts after imposing the 1-percent levy in June 1985[d]	190	634	1162	1037
Increase in the number of problem thrifts that would have resulted from the 1-percent levy	102	173	396	204

Source: FHLBB Semiannual and Quarterly Financial Statements, 1977-1985.

Notes: [a] The 1-percent FSLIC recapitalization levy is comparable to that suggested by the Chairman of the Bank Board in which thrifts would all pay 1 percent of their deposits into the FSLIC fund. To show the effect of imposing the levy we have removed this amount from the assets and net worth of the institutions.

[b] Insolvent institutions have net worth less than or equal to zero percent of assets.

[c] Low net worth institutions have net worth between 0 and 3 percent of assets.

[d] Shown here are the number of institutions that would have been insolvent or that would have had low net worth if an FSLIC levy of 1 percent of deposits had been collected in June 1985.

Federal Home Loan Bank Board

EDWIN J. GRAY
CHAIRMAN

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

January 27, 1986

Mr. Craig Simmons
Associate Director
U.S. General Accounting Office
Room 3858A
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Simmons:

After carefully reviewing the GAO report entitled "Thrift Industry Problems--Potential Demands on the FSLIC Insurance Fund," I am concerned that the report, perhaps inadvertently, overstates the problems facing the FSLIC. Specifically, on page 4, the report states that the financial condition of nearly 1300 FSLIC insured institutions is weak. To imply that over 42 percent of the industry is likely to require some form of FSLIC assistance seriously distorts the magnitude of the problem. I fear that if such an overstatement were to become public it could seriously worsen the actual situation.

See comment 1.

See comments 2 and 3.

The report's tendency to overstate the size of the problem partially results from its lack of a clear definition of what constitutes a problem institution. While this is a difficult task, such a characterization must be specified before the number of potential problem cases can be estimated. From our own perspective, there are at least three variables that should be weighed before an institution is considered a potential problem case. The level of net worth is clearly an important factor. The report devotes substantial effort to justify its focus on the GAAP measure of net worth. The primary distinction between RAP net worth and GAAP net worth is that the former allows for a gradual amortization of losses while the latter requires an immediate reduction in earnings, and thus net worth, for assets sold at a loss. RAP accounting removed the accounting deterrent inherent in GAAP to portfolio restructuring. Thus, by encouraging thrifts to remove underwater assets from their books, RAP accounting has allowed many thrifts to restructure their portfolios and significantly improve their long term viability. Therefore, while the current level of net worth is important, an equally important factor is a firm's future earning potential. This potential can be approximated by the firm's current reported earnings and its latest supervisory rating. The supervisory rating provides an indication of the underlying quality of the firm's assets and management. Note these variables only indicate potential problem cases and do not imply that an institution will necessarily require FSLIC assistance.

On page 4, the report states that if GAAP-insolvent thrift institutions were recovering, the level of concern over the condition of the industry and its implications for FSLIC would not be high. The report proceeds, however,

See comment 4.

Now page 4.
Now table 6, page 19.

to ignore this statement and to analyze the potential cost to the FSLIC from liquidating or merging all GAAP-insolvent institutions. Thus, in Tables 3 and 4, on pages 16 and 17, the GAO report provides figures on the number of insolvent and low-net-worth institutions. Then, on page 5 and in Table 5 on page 18, the report estimates the potential losses for the FSLIC from liquidating or merging these insolvent institutions to be between 5 and 23 billion dollars. To suggest that all GAAP-insolvent institutions will require FSLIC assistance is simply inappropriate. As I have already indicated, such an approach ignores future earning potential and thus tends to dramatically overstate the size of the problem.

Now table 5.

Now table 5.

Now table 5.

A more reasonable approach is the one used in Table 6. This table identifies the number of insolvent and unprofitable institutions, then estimates the potential cost of resolving only these cases. Contrary to statements on page 1 of the report, only half of the insolvent thrifts were unprofitable during the first half of 1985. Table 6 identifies 239 GAAP-insolvent institutions that were unprofitable for the first half of 1985. These institutions, representing less than 8 percent of the industry, could be considered weak and potential problem cases for the FSLIC. This number is significantly less than the 1,300 institutions with assets of $433 billion, or 42 percent of industry assets reported in the GAO document. Thus, while the numbers used in the other tables are accurate, I feel they substantially misrepresent the current situation. Furthermore, since these figures are thoroughly discussed before those in Table 6, I believe they overshadow this more reasonable approach.

See comment 5.

While the GAO report explains on page 2 why it does not examine the resources available to the FSLIC, such an omission inherently raises doubts as to the adequacy of FSLIC resources. By simply suggesting possible resolution costs, the report ignores the potential for future revenues and the ability of the FSLIC to find no-cost resolutions to many of the cases. For example, some of the cases may be resolved through voluntary or non-assisted mergers and therefore cost very little to the FSLIC. This approach is projected to reach close to 100 institutions over the next year, further reducing the number of potential institutions that may require FSLIC assistance to under 200 firms.

The report also does not acknowledge that numerous techniques exist for replacing the current managers of weak institutions and thereby limiting any growth of the problem. The MCP program, for example, provides a mechanism to assist insolvent and unprofitable thrifts in an effort to reduce further deterioration. Once the growth of the problem has been stopped, various techniques are available to defer the need for FSLIC to make immediate cash outlays. This postponement allows the FSLIC time to accumulate substantial resources from premium income and investment income. Premium income is projected to be approximately $1.89 billion in 1986 and $2.08 billion in 1987 if the special assessment of one-eighth of 1% is continued. Investment income should generate almost one-half billion dollars a year.

The report further fails to include the significant lines of credit available to the FSLIC. The FSLIC may borrow from any of the twelve Federal Home Loan Banks, limited by the financial capacity of the Banks and the willingness of each of their Boards of Directors to authorize funds to FSLIC.

The Federal Home Loan Banks have assets of over $100 billion and are capitalized at close to 9 percent. Furthermore, the Bank's assets are substantially over collateralized. This strength allows them to borrow money at rates slightly above Treasury rates. To date, the FSLIC has borrowed $900 million from the FHLB's which has been passed through FSLIC in collateralized loans from which the FSLIC expects to experience no financial losses. Given a prudent expansion of the Banks' capital base, over an extended period of time, five years for example, this device could provide the FSLIC with up to five billion dollars. FSLIC also has a direct line of credit from the U.S. Treasury in the amount of $750 million. This line was established by legislation in June 1950 and has never been used.

Now page 5.

See comment 6.

The report's analysis on page 6 and in Table 9 of the effect of a 1 percent assessment is especially distorted. The report states "FSLIC and the Bank Board have the power to levy a supplemental insurance assessment on their constituent institutions equal to 1 percent of deposits... Such an assessment would increase fund reserves by roughly $8 billion." The FSLIC may "assess" an amount equal to one-eighth of one percent of accounts in any single year to meet losses of the FSLIC. The statutory provision for a call equal to one percent of accounts, however, provides for a deposit which would be a debt of the corporation. This call would improve the FSLIC's liquidity, but would not affect its net balance sheet position. Thus, the reserve or equity position of the FSLIC would not be increased by $8 billion or by any amount under the Bank Board's statutory authority to make a call equal to one percent of accounts. Also, institutions would not become insolvent as a result of the call since they would now have a FSLIC asset on their books. Their net position would be unchanged. If the report is suggesting a levy comparable to NCUA powers, it is important to note that the Bank Board does not have such powers.

In summary, while the raw data base for this report is accurate, its utilization distorts the magnitude of the problem facing the FSLIC. It also seems inappropriate to suggest a dollar cost of resolution without exploring the specific method of resolution. Furthermore, to examine only the cost of resolution without examining the sources of revenue ignores a vital aspect of the overall nature of the problem. Finally, it also should be mentioned that the industry has had two very profitable quarters not included in this report, and that the industry on a market value basis recently turned positive for the first time in a number of years.

See comment 7.

I trust you share my concern that the magnitude of the problem facing the FSLIC not be, perhaps inadvertently, overstated. Such an overstatement could only serve to worsen the actual situation. I believe that an accurate portrayal of this problem is necessary for the Congress to formulate as it may choose any legislative response.

Sincerely,

Edwin J. Gray

GAO Comments on the Federal Home Loan Bank Board's Letter dated January 27, 1986

1. It was not our purpose to suggest that all of the nearly 1300 insolvent or low net worth FSLIC-insured institutions will need FSLIC assistance, although we do believe that they should be classified as financially weak. (In our report, we define a weak institution as one having less than 3 percent GAAP net worth.) We provide this information in the report as one of a number of measures of the financial condition of the industry.

2. The Bank Board correctly points out that defining a "problem institution" is difficult. Indeed, the Bank Board's explanation of its criteria amply illustrates the difficulty. The Bank Board's comments indicate that RAP-insolvent, unprofitable institutions having adverse supervisory ratings are considered to be "potential problem cases."

In fact, a hierarchy of problems exists and choosing which problems are urgent enough to demand FHLBB action or FSLIC assistance is a policy decision, which in part may be constrained by the resources available to FSLIC. For example, we look at several subsets of the thrift industry that, under well-defined criteria, might be considered to have problems. These sub-groups are:

- -- all institutions with GAAP net worth below 3 percent of assets;
- -- all insolvent institutions, i.e., all institutions for which the value of liabilities is greater than the value of assets; and
- -- all institutions that are both insolvent and unprofitable.

In a real sense, institutions in each of these groups have problems. And, while that does not signify that any particular institution will fail (where failure is determined by the regulators), any of these criteria, or several others that might reasonably be chosen, could be used to define the set of "problem institutions." It is not our intent in this report to select the specific criteria that should be used to classify "problem institutions," but only to delineate the financial condition of the industry using GAAP net worth and profitability as criteria.

3. The FHLBB uses RAP accounting for regulatory purposes in the thrift industry. The Bank Board mentions, for example, that using RAP permits the restructuring of portfolios to allow thrifts to improve their long-term viability. We do not address the importance or the success of RAP accounting in achieving such goals. We do, however, feel that GAAP accounting provides a more consistent and widely recognized measure of the financial health of individual thrift institutions and of the industry. Moreover, using common, widely accepted accounting standards in different financial sectors permits meaningful inter-industry comparisons.

4. As we indicated in our second comment, there is a hierarchy of problems for describing the condition of the thrift industry. We discuss three different criteria, which define groups of thrifts ranging from the most severe cases where institutions are both GAAP-insolvent and unprofitable, to a much broader definition, i.e., all institutions with GAAP net worth less than 3 percent of assets. Other reasonable criteria exist. For example, of the 833 institutions with GAAP net worth between 0 and 3 percent, the data in table 8 indicate that 233 are also unprofitable. If the earnings trend for those institutions continues, they will become insolvent. Even though some of these thrifts will probably require regulatory action, we did not include them in our discussion of the potential demands on FSLIC in tables 5 and 6. The estimates of such demands that are presented in our report are not intended to be forecasts of actual demands on FSLIC, but only benchmarks of the level of demand that could exist under specifically defined criteria.

With regard to the discussion of potential demands on FSLIC that accompanies tables 5 and 6, we have reversed those tables and their accompanying discussion in the final report.

5. The scope of our work did not include a discussion of the current or future resources available to FSLIC for resolving thrift failures. We agree with the Bank Board comment that there are several sources of funds for dealing with the industry's problems, but we are not in a position to comment on their adequacy.

6. We have modified the language of the report on page 5 to more clearly explain the simulation effects shown in table 9. We have been informed by the Bank Board that legal counsel has determined that such a levy under the Bank Board's existing authority would not increase the resources of FSLIC. However, on October 17, 1985, in testimony before a Subcommittee of the House Committee

on Banking, Finance and Urban Affairs, the Chairman of the Bank Board suggested as one among several alternatives that the Bank Board be given additional authority to make such an assessment in order to recapitalize the FSLIC insurance fund from within the industry. The simulation results presented in table 9 remain useful, therefore, for illustrating the effects on the thrift industry of such an assessment even though the suggested change in authority has not been granted.

7. We recognize in the report that the industry, as a whole, was profitable during 1985. Our concern is that this profitability is not evenly spread across all institutions. There are some dangers in relying on future profitability to restore weak institutions to adequate levels of capital. First, institutions that are insolvent and unprofitable are deteriorating, not recovering. Moreover, as they continue to grow in size, the dollar cost to FSLIC of liquidating or merging them is likely to increase. Indeed, the Chairman of the Bank Board stated in his October 17th testimony (p. 9) that deferring action on current and projected cases "can only result in greater costs to the FSLIC down the road."

Secondly, difficulties exist even among those low net worth or insolvent institutions that are profitable. These may ultimately return to an adequate level of capital. However, the results of research presented at the 11th Annual Conference of the Federal Home Loan Bank of San Francisco, demonstrate that, even under optimistic assumptions about earnings and growth, institutions starting from low levels of net worth will not reach adequate levels of capital for many years.[1] During this period, they are vulnerable to deteriorations in the economic environment. This suggests that reliance on internal earnings potential may not resolve the undercapitalization problems in the industry.

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[1] Mark Flannery, "Re-capitalizing the Savings and Loan Industry."

Chairman **St Germain**. Thank you.

At this time we will hear from Robert Sahadi, Acting Director, Office of Policy and Economic Research, the Federal Home Loan Bank Board.

We will place your statement in the record and you may proceed.

[In lieu of a statement, the following letter received from Chairman Edwin J. Gray, Federal Home Loan Bank Board, to Mr. Craig Simmons of the GAO, dated January 27, 1986, responding to the GAO report entitled, "Thrift Industry Problems—Potential Demands on the FSLIC Insurance Fund" was received by the subcommittee for inclusion in the record:]

Chairman Gray

Federal Home Loan Bank Board

EDWIN J. GRAY
CHAIRMAN

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAN 27 1986

Mr. Craig Simmons
Associate Director
U.S. General Accounting Office
Room 3858A
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Simmons:

After carefully reviewing the GAO report entitled "Thrift Industry Problems--Potential Demands on the FSLIC Insurance Fund," I am concerned that the report, perhaps inadvertently, overstates the problems facing the FSLIC. Specifically, on page 4, the report states that the financial condition of nearly 1300 FSLIC insured institutions is weak. To imply that over 42 percent of the industry is likely to require some form of FSLIC assistance seriously distorts the magnitude of the problem. I fear that if such an overstatement were to become public it could seriously worsen the actual situation.

The report's tendency to overstate the size of the problem partially results from its lack of a clear definition of what constitutes a problem institution. While this is a difficult task, such a characterization must be specified before the number of potential problem cases can be estimated. From our own perspective, there are at least three variables that should be weighed before an institution is considered a potential problem case. The level of net worth is clearly an important factor. The report devotes substantial effort to justify its focus on the GAAP measure of net worth. The primary distinction between RAP net worth and GAAP net worth is that the former allows for a gradual amortization of losses while the latter requires an immediate reduction in earnings, and thus net worth, for assets sold at a loss. RAP accounting removed the accounting deterrent inherent in GAAP to portfolio restructuring. Thus, by encouraging thrifts to remove underwater assets from their books, RAP accounting has allowed many thrifts to restructure their portfolios and significantly improve their long term viability. Therefore, while the current level of net worth is important, an equally important factor is a firm's future earning potential. This potential can be approximated by the firm's current reported earnings and its latest supervisory rating. The supervisory rating provides an indication of the underlying quality of the firm's assets and management. Note these variables only indicate potential problem cases and do not imply that an institution will necessarily require FSLIC assistance.

On page 4, the report states that if GAAP-insolvent thrift institutions were recovering, the level of concern over the condition of the industry and its implications for FSLIC would not be high. The report proceeds, however,

to ignore this statement and to analyze the potential cost to the FSLIC from liquidating or merging all GAAP-insolvent institutions. Thus, in Tables 3 and 4, on pages 16 and 17, the GAO report provides figures on the number of insolvent and low-net-worth institutions. Then, on page 5 and in Table 5 on page 18, the report estimates the potential losses for the FSLIC from liquidating or merging these insolvent institutions to be between 5 and 23 billion dollars. To suggest that all GAAP-insolvent institutions will require FSLIC assistance is simply inappropriate. As I have already indicated, such an approach ignores future earning potential and thus tends to dramatically overstate the size of the problem.

A more reasonable approach is the one used in Table 6. This table identifies the number of insolvent and unprofitable institutions, then estimates the potential cost of resolving only these cases. Contrary to statements on page 1 of the report, only half of the insolvent thrifts were unprofitable during the first half of 1985. Table 6 identifies 239 GAAP-insolvent institutions that were unprofitable for the first half of 1985. These institutions, representing less than 8 percent of the industry, could be considered weak and potential problem cases for the FSLIC. This number is significantly less than the 1,300 institutions with assets of $433 billion, or 42 percent of industry assets reported in the GAO document. Thus, while the numbers used in the other tables are accurate, I feel they substantially misrepresent the current situation. Furthermore, since these figures are thoroughly discussed before those in Table 6, I believe they overshadow this more reasonable approach.

While the GAO report explains on page 2 why it does not examine the resources available to the FSLIC, such an omission inherently raises doubts as to the adequacy of FSLIC resources. By simply suggesting possible resolution costs, the report ignores the potential for future revenues and the ability of the FSLIC to find no-cost resolutions to many of the cases. For example, some of the cases may be resolved through voluntary or non-assisted mergers and therefore cost very little to the FSLIC. This approach is projected to reach close to 100 institutions over the next year, further reducing the number of potential institutions that may require FSLIC assistance to under 200 firms.

The report also does not acknowledge that numerous techniques exist for replacing the current managers of weak institutions and thereby limiting any growth of the problem. The MCP program, for example, provides a mechanism to assist insolvent and unprofitable thrifts in an effort to reduce further deterioration. Once the growth of the problem has been stopped, various techniques are available to defer the need for FSLIC to make immediate cash outlays. This postponement allows the FSLIC time to accumulate substantial resources from premium income and investment income. Premium income is projected to be approximately $1.89 billion in 1986 and $2.08 billion in 1987 if the special assessment of one-eighth of 1% is continued. Investment income should generate almost one-half billion dollars a year.

The report further fails to include the significant lines of credit available to the FSLIC. The FSLIC may borrow from any of the twelve Federal Home Loan Banks, limited by the financial capacity of the Banks and the willingness of each of their Boards of Directors to authorize funds to FSLIC.

The Federal Home Loan Banks have assets of over $100 billion and are capitalized at close to 9 percent. Furthermore, the Bank's assets are substantially over collateralized. This strength allows them to borrow money at rates slightly above Treasury rates. To date, the FSLIC has borrowed $900 million from the FHLB's which has been passed through FSLIC in collateralized loans from which the FSLIC expects to experience no financial losses. Given a prudent expansion of the Banks' capital base, over an extended period of time, five years for example, this device could provide the FSLIC with up to five billion dollars. FSLIC also has a direct line of credit from the U.S. Treasury in the amount of $750 million. This line was established by legislation in June 1950 and has never been used.

The report's analysis on page 6 and in Table 9 of the effect of a 1 percent assessment is especially distorted. The report states "FSLIC and the Bank Board have the power to levy a supplemental insurance assessment on their constituent institutions equal to 1 percent of deposits... Such an assessment would increase fund reserves by roughly $8 billion." The FSLIC may "assess" an amount equal to one-eighth of one percent of accounts in any single year to meet losses of the FSLIC. The statutory provision for a call equal to one percent of accounts, however, provides for a deposit which would be a debt of the corporation. This call would improve the FSLIC's liquidity, but would not affect its net balance sheet position. Thus, the reserve or equity position of the FSLIC would not be increased by $8 billion or by any amount under the Bank Board's statutory authority to make a call equal to one percent of accounts. Also, institutions would not become insolvent as a result of the call since they would now have a FSLIC asset on their books. Their net position would be unchanged. If the report is suggesting a levy comparable to NCUA powers, it is important to note that the Bank Board does not have such powers.

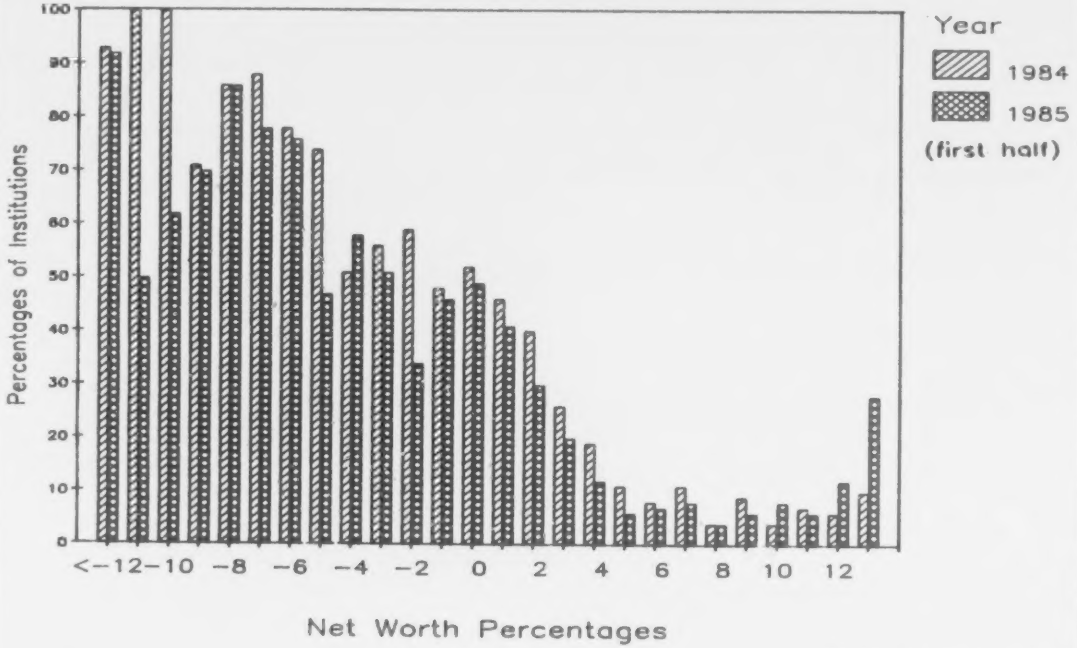
In summary, while the raw data base for this report is accurate, its utilization distorts the magnitude of the problem facing the FSLIC. It also seems inappropriate to suggest a dollar cost of resolution without exploring the specific method of resolution. Furthermore, to examine only the cost of resolution without examining the sources of revenue ignores a vital aspect of the overall nature of the problem. Finally, it also should be mentioned that the industry has had two very profitable quarters not included in this report, and that the industry on a market value basis recently turned positive for the first time in a number of years.

I trust you share my concern that the magnitude of the problem facing the FSLIC not be, perhaps inadvertently, overstated. Such an overstatement could only serve to worsen the actual situation. I believe that an accurate portrayal of this problem is necessary for the Congress to formulate as it may choose any legislative response.

Sincerely,

Edwin J. Gray

Figure 3
Percentage of Unprofitable Thrifts
by GAAP Net Worth Percentages
1984 and 1985 (first half)



Source: Tables 7 and 8

STATEMENT OF ROBERT SAHADI, ACTING DIRECTOR, OFFICE OF POLICY AND ECONOMIC RESEARCH, FEDERAL HOME LOAN BANK BOARD

Mr. SAHADI. Good morning, ladies and gentlemen. My name is Robert Sahadi. I am Acting Director of the Office of Policy and Economic Research of the Federal Home Loan Bank Board.

A substantial decline in market interest rates and generally widespreads between yields on short-term and long-term debt instruments produced a favorable operating environment for the savings industry in 1985. Most of the industry took advantage of this opportunity to improve the structure of their asset liability mix so as to reduce their interest rate risk and improve profitability. Indeed, FSLIC-insured firms in 1985 achieved their highest aggregate return on assets since 1979, in the process earning net income four times that of just 1 year earlier.

Thrifts also reduced their ratio of 1-year cumulative hedged gap to total assets from a negative 35 percent at the end of 1984 to a negative 28 percent by the end of September 1985. Perhaps most significant, the thrift industry sharply reduced its growth rate from the unsustainable and unsound pace of 1984, largely in response to a change in the Bank Board's net worth regulation. Liability growth slowed from more than 19 percent in 1984 to 8 percent in 1985, with the deduction concentrated in the most costly and volatile liabilities.

Thus, the Board's efforts to keep thrift growth in line with the industry's real capital level may be beginning to bear fruit.

Even with this reduction in liability growth, however, savings institutions were able to boost their gross mortgage lending from the record year earlier volume by increasing their secondary market sales and reducing acquisitions of securities.

Moreover, by year end, as a result of the sharp decline in mortgage interest rates, the market value of the industry's residential mortgage holdings appear to have exceeded its book value for the first time since 1979.

The industry also increased its regulatory net worth ratio over the year by nearly 13 percent, as a result of improved profitability, sales of stock and subordinated debentures, and the issuance of income capital certificates.

I would like to make a few comments concerning the section of the Council of Economic Advisers' Report that focused on the role of the thrift industry in terms of its traditional commitment to the housing industry.

Mortgage lending by savings institutions has increased from less than $2 billion in 1945 to $117 billion in 1985. This was 55 percent of the total mortgage loan originations made in one- to four-family homes during the year. At the end of 1985, savings institutions held an estimated $547 billion of residential mortgages, an estimated $120 billion in mortgage-backed securities, and $5 billion in collateralized mortgage obligations.

This nearly $700 billion in mortgage and mortgage-related securities account for two-thirds of these institutions' portfolios. Our thrifts are still primarily housing lenders. Commercial banks account for only 15 percent of the home mortgage debt outstanding.

Even under 1985's favorable operating condition, however, a significant minority of the industry, some 15 percent, continue to experience operating losses. And a much smaller number of firms encountered serious solvency problems because of unsound lending and investment practices, in substantial part related to their earlier too rapid growth.

For the industry as a whole, the ratio of delinquent loans and repossessed assets to total assets rose from 2.04 percent at the yearend 1984 to over 3 percent at yearend 1985, and more than one-fifth of the industry possessed a regulatory net worth ratio below 3 percent.

Thus, while the thrift industry's condition in 1985 continued to reflect the marked improvement over the industry's difficulties in the early 1980's, industry wide capitalization levels remain low and asset quality problems severe enough that further enhancements to the FSLIC fund, as well as the Board's examination, supervision, and enforcement powers clearly are required.

We appreciate the opportunity to have this forum today. I think the GAO has done a great service to the Bank Board in trying to better articulate the scope of the problem. As we all know, one of the first things one does in trying to get his hands on a problem is to try to define the size of the problem.

We clearly have some difficulties technical in nature of how they calculate their numbers versus how we calculate ours. But as we go through the questioning, we would hope to come to some sort of a consensus that the GAO report, particularly tables 5 and 6, encompass the scope of the problem as the Bank Board sees it today.

One of the major concerns that the Bank Board is faced with in looking at the current problem is not only dealing with the size of the problem, but stopping the hemorrhaging. We have undertaken a number of initiatives in 1985, such as the growth regulations that I just mentioned, the institution of a Federal asset disposition association, which I am sure you are all aware of, established a management consignment program that helps us in deferring cases, and significantly beefed up our enforcement, supervision, and examination staffs. Furthermore, there is a host of policy initiatives on the table such as risk-based capital, liquidity requirements, out-of-market loan regulation, risk-based premiums, and others that I can develop in more detail in questioning.

Thank you very much.

Mr. PARRIS. Mr. Chairman? Mr. Chairman, I wonder if I might inquire—it's kind of an extraordinary procedure for members of the committee not to have a copy of a prepared statement by the witnesses. The gentleman's comments were fairly complex and contain a very large number of figures of one kind or another.

I wonder if it would be possible for us to get copies of that to review.

Chairman ST GERMAIN. Mr. Parris, if you will look, I think we provided you with a letter dated January 27 to Mr. Craig Simmons of GAO, and it's signed by Mr. Gray.

That was the statement that was submitted to us. The comments that were just made, as I have always stated, are put in the record and then I allow all Members to comment on what has been said.

I agree with you—it's rather unusual—but that is what the witness chose to do in this instance.

Mr. **Parris**. Well, I respectfully submit, Mr. Chairman, the gentleman's statement that we just completed was substantially more complete in certain aspects than the letter.

Chairman **St Germain**. I agree wholeheartedly.

Mr. **Parris**. Thank you.

Chairman **St Germain**. We will now hear from Jay Janis of Gibraltar Savings and Loan Association, appearing on behalf of the U.S. League of Savings Institutions.

We will put your entire statement in the record and you may proceed.

STATEMENT OF JAY JANIS, CHAIRMAN OF THE EXECUTIVE COMMITTEE, GIBRALTAR SAVINGS AND LOAN ASSOCIATION, BEVERLY HILLS, CA, ON BEHALF OF THE U.S. LEAGUE OF SAVINGS INSTITUTIONS

Mr. **Janis**. Thank you very much, Mr. Chairman, and members of the subcommittee. I am Jay Janis, chairman of the executive committee of Gibraltar Savings in California and I am testifying on behalf of the U.S. League of Savings Institutions.

As explained in my prepared statement, the U.S. League has a special task force that's been convened to prepare a comprehensive report detailing legislative, regulatory, and administrative steps to bolster the FSLIC. That report will be acted upon a week from today by the league's major policymaking organ, its board of directors, and we will share its findings and recommendations with your subcommittee without delay when adopted.

Mr. Chairman, it's always a pleasure to appear before you and this subcommittee, even if it means having to travel all the way from California to do so. But one advantage of making that trip is that you are up there in an airplane for 4½ or 5 hours and you have a chance to kind of sit back and ask yourself what really is going on with all of these press reports and the numbers and everything else with regard to FSLIC?

Very briefly, the way I see it, the depository system is, indeed, being strained. And the depository system that I speak of includes the FSLIC, the FDIC, and the NCUSIF.

But the problem is manageable. Conditions are actually improving. I think it's important that we avoid being panicked by faulty press reports and confusing studies. And I believe, Mr. Chairman and members of the subcommittee, that the greatest danger is coming up with the wrong solution.

This is one case, simply put, where no solution is better than the wrong one.

Now let me elaborate a little bit on some of these points.

With regard to the strain on the depository system, I think that's merely the confluence of about five important forces coming together at one time in our society. Deregulation at the Federal and State level is the first. A second is the disinflation in real estate prices, and this is a very important factor. A third is the combination of high deficits and high interest rates during the past few years. They are down now, but the spread problems caused institutions to invest in riskier assets than might normally be the case. A fourth factor is the unravelling of OPEC. And a fifth is the strong dollar, the trade deficit, and the effect on the agricultural sector.

Now the interesting thing about this strain on the depository system is that it really doesn't have any effect on depositors, and that's crucial.

Now I said the problem is manageable. But we do have a GAO report. And I don't quibble too much with the raw data. However, what they did with that raw data, in my judgment, is questionable and, in some cases, seriously flawed.

I think the problem is manageable because what of we have in place, such as the management consignment program and the Federal asset disposition association, things, by the way, that the GAO report does not even consider—apparently, the data was put together before those fixes came into place.

Other things that make the problem manageable are the net worth certificates which this subcommittee and which this Congress has passed and which we hope will be extended, and various title I powers, such as the emergency powers on acquisition.

The problem is manageable because of the regulatory actions that the regulator has taken. The net worth growth regulation has worked. It has worked because growth has been cut by over a half from 1984 to 1985. Other effective actions include the direct investment regulation, the ADC regulations, the classification of assets, moving the examiners to the Federal home loan banks and increasing their salaries and the size of those staffs, the creation of the Office of Enforcement, and regulations affecting de novo S&L's, those new ones that come along: the charter conditions that are being put on them are difficult and tough and stringent, as they should be.

And these regulatory actions, I think, help to make the problem manageable.

Now conditions clearly are improving. The net worth problem of the industry peaked way back in the first quarter of 1984. It's getting better ever since then. In fact, it's the highest right now since 1981; 1985 was a boom year for the industry. Ninety percent of the industry was profitable. That's about the same number as the commercial banks that were profitable in that year. Eighty percent of the S&L's in this business are actually meeting their net worth requirements. And the market value of the portfolio of the industry has exceeded the book value for the first time in many years.

So, Mr. Chairman, I think it's important to avoid panic. There are misleading reports that are being published. Unfortunately, the press tends to pick up the most negative aspects of those reports without seeing the positive side of things. And as I said before, the wrong solution in this case is worse than no solution.

The CEA, Council of Economic Advisers' report presented to the Congress suggests that we need to reconsider the need for specialized lenders.

Now, Mr. Chairman, 52 percent of the mortage originations last year in this Nation were made by the savings and loan business versus 21 percent by banks. It seems to me that any action that does not preserve the specialized nature of the thrift business does a disservice to this Nation's ability to provide ample mortgage credit to our citizens.

I believe that our commitment to housing, to keep America the best housed Nation on Earth, is crucial to the preservation of our democratic society.

Thank you.

[The prepared statement of Mr. Janis on behalf of the U.S. League of Savings Institutions follows:]

STATEMENT OF JAY JANIS
On behalf of the U.S. League of Savings Institutions
To the Subcommittee on Financial Institutions
House Committee on Banking, Finance and Urban Affairs
March 5, 1986

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

My name is Jay Janis. I am Chairman of the Executive Committee of Gibraltar Savings of Beverly Hills, California and appear today on behalf of the United States League of Savings Institutions.

The League and its 3,400 savings and loan and savings bank member institutions appreciates the opportunity to appear at these timely oversight hearings on the condition of depository institutions and the federal agencies responsible for their insurance of accounts.

The task confronting the Federal Savings and Loan Insurance Corporation is of immediate importance to most of our membership. Our national chairman, Gerald J. Levy, has placed the highest priority on developing legislative, regulatory, and administrative recommendations which will address the present strain on the resources of the FSLIC and enable it to continue to perform its important role in preserving the public's confidence in our FSLIC-insured institutions. Chairman Levy will present his report to the 500 members of the League's Legislative Committee at its conference next week in Washington. Our Board of Directors, representing every State, will consider those recommendations for adoption as policy by our organization. Upon ratification, we will be pleased to share the report with the members of this distinguished Subcommittee -- highlighting those elements of our long-term plan for the FSLIC which involve legislative implementation.

As your press release announcing these hearings suggests, the decline in oil prices, the problems in the agricultural economy, and the dangers arising from foreign debts, merit your immediate attention to the challenges confronting the Federal Deposit Insurance Corporation, as well. Our FDIC-insured thrift institution members commend your decision, Mr. Chairman, to include their agency in the scope of this Subcommittee's inquiries.

Underlying the concern about the federal deposit insurance funds is the realization that public confidence must be maintained in our system of insured depository institutions. Depositors may rest assured that their funds are completely safe to the $100,000 insurance ceiling -- thanks to the repeated statements by you, Mr. Chairman and Members of this distinguished Subcommittee, that the full faith and credit of the United States Government stands behind the federal insurance-of-accounts system. For that you have our gratitude and praise.

State of the Thrift Business

Though much remains to be done, we are pleased to report significant progress in the return to profitability, restructuring of our asset base, and rebuilding of net worth in the savings institutions business in 1985. According to the U.S. League's Research Department, the business posted $4.4 billion in after-tax net income. These earnings were accomplished in spite of the extraordinary $1 billion in special assessments levied by the FSLIC throughout the year. Nearly 90 percent of our institutions ran "in the black" in 1985. This performance, the strongest in seven years, stems in large part from a current spread of over 2 percent between cost of funds and return on investments.

The strong earnings record also enabled thrift institutions to build up reserves to a net worth level of $46.6 billion, with a regulatory net worth-to-liabilities ratio of 4.57 at year's end, the highest since October 1981.

Rejuvenating net worth is essential to the long-term viability of the thrift industry. Just as important is the progress in restructuring loan portfolios. By December, nearly 45 percent of all residential mortgages outstanding in the industry were adjustable-rate -- providing vital protection against future interest-rate upswings. In November, the business nationwide reached a major milestone: the market value of mortgages held exceeded their book value for the first time in a decade. This achievement, of course, varies widely from institution to institution.

For the year, the business closed a record $195.9 billion in mortgage loans, 63 percent of which were permanent residential loans. On a market share basis, savings institutions closed 52 percent of the nation's home mortgages.

Mortgage bankers and commercial banks were a distant second and third with market shares of 25 percent and 21 percent, respectively.

This latter statistic is particularly interesting in light of the comments appearing in last month's Economic Report of the President, prepared by the Council of Economic Advisers. That document stated: "It may be appropriate to reconsider the wisdom of designating limited-purpose lenders, including mortgage lenders. The commercial banks have been active in mortgage lending, and their activity plus the success of firms in the secondary market for mortgages makes clear that mortgage lending does not require a separate, subsidized financial sector." That comment may be consistent with some doctrinaire view of the economy, but it certainly does not conform to the reality of the mortgage marketplace. Dismantling the savings institutions business and its support facilities would be a tragic disservice to families seeking homeownership.

Despite the satisfying improvement in the performance of our industry in 1985, there were some disturbing statistics. In particular, the ratio of substandard loans to assets was 3.06 percent last year, compared with 2.04 percent at year-end

1984. This deterioration reflects an increase nationwide in delinquent construction loans and repossessed assets; by contrast, residential mortgage loan delinquencies fell slightly. These data point up the shift in the origins of the problems which confront the FSLIC. Earlier in this decade interest-rate spread difficulties led to the failure of institutions with sound investment portfolios producing inadequate returns to meet competitive savings costs; now, an increasing number of failures may be traced to asset-quality problems.

Condition of the FSLIC

It is our understanding that the Subcommittee will receive testimony from the officials of the Federal Home Loan Bank Board, the parent agency for the Federal Savings and Loan Insurance Corporation. We are sure that the Bank Board will provide the latest available information on the status of the fund, but, for purposes of this statement, we would repeat some facts presented in recent testimony before the HUD-Independent Agencies Subcommittee of the House Committee on Appropriations.

At the Appropriations Subcommittee hearing of February 19, 1986, Chairman Edwin Gray testified that about 22 percent of all FSLIC-insured institutions had a regulatory net worth/assets ratio below its 3 percent minimum standard. The total insurance reserve increased between December 31, 1984 and December 31 of last year from $5.61 to $6.04 billion FSLIC's total income for 1985 was $2.3 billion, a $1 billion increase from the previous year -- due to the FSLIC's exercise of its statutory authority to impose a 1/8 of 1% special premium assessment.

The Appropriations Subcommittee testimony reported a total of 56 case actions, resolving 33, and placing 23 under the Bank Board's innovative Management Consignment Program. The 56 cases involved assets of $22.2 billion, with cost to FSLIC of about $1.7 billion.

Widely different assessments of the magnitude of the problems confronting the FSLIC have appeared in the press. The U.S. League's Research Department has studied the matter in depth and concluded that total resolution costs for problem cases which are now apparent or likely to be encountered are in the $8 billion to $15 billion range.

Reports in the press have presumed much higher resolution costs for the FSLIC case load. In addition, those reports have often painted an unnecessarily grim view of the financial condition of the FSLIC by focusing on the "unobligated balance" of the FSLIC. The unobligated balance is defined as liquid assets less total liabilities. As the FSLIC acquires assets in a receivership, a part of the assets of the fund automatically drop out of the assets includible in the unobligated balance calculation -- essentially only cash and Treasury securities count. Thus the unobligated balance, as an ultraconservative measure of financial condition, can give misleading signals as regards the health of the fund. Total reserves of the fund can increase despite a drop in the unobligated balance. We believe that the net worth of the FSLIC gives a much better picture of its condition. These reserves are more than twice the value of the unobligated balance.

Furthermore, unlike the higher numbers you may have seen elsewhere for potential FSLIC resolution costs, our analysis differentiates between the disposition of problems which date back to the interest-rate-spread difficulties of the past and the asset-quality problems of the present. The costs of resolving cases involving institutions where net worth has disappeared because of locked-in rate-spread problems is relatively minor and may be managed through supervisory merger or use of the Management Consignment approach. The heavier costs to the FSLIC typically arise from institutions which have adopted a strategy of investment in high-risk assets.

In particular, we take exception to the methodology used by the General Accounting Office in its report dated February 12, 1986 to Congressman Parris of this Subcommittee. The GAO claimed a loss exposure of up to $22.5 billion for the FSLIC -- considerably higher than our estimate. It did so by looking at the total assets of problem institutions that have negative net worth under generally-accepted accounting principles and applying a fixed resolution-cost percentage to the assets of institutions so identified.

In addition to differentiating those institutions troubled by the legacy of interest-rate spread from those with high concentrations of problem assets, we protest putting forth GAAP net worth as the measurement standard. For one thing, using the GAAP standard specifically excludes net worth derived by more than 100 thrift institutions from use of the Net Worth Certificates, developed by your Subcommittee, and enacted into law in the landmark St Germain-Garn Act of the 97th Congress.

In addition, other items includible in regulatory accounting procedures (RAP), but not in GAAP, are not the ones that are indicative of the problems the FSLIC now faces. Deferral of loss on loan sales, as permitted since September 1981 for below-market loans originated before October 1984, was one of the restructuring incentives devised by the FHLBB. Another non-GAAP item is the booking of "appraised equity capital" which reflects the modern value of business premises, rather than out-dated acquisition values. These RAP net worth components do not lead to case resolution problems of the sort which expose the FSLIC to future losses.

It is therefore inappropriate, in our view, to multiply the assets of GAAP net worth deficient institutions by a flat resolution-cost percentage to measure the exposure of the FSLIC fund.

While on the subject of RAP versus GAAP, we would also like to bring to the Subcommittee's attention a recent report of a joint Task Force on Agricultural Credit of the American and Independent Bankers associations. Interestingly, the ABA-IBAA group advocates a change in regulatory accounting procedures to "enable prudently managed banks to amortize their loan losses over a multi-year period" -- a concept borrowed from the FHLBB's deferral of losses on sale of below-market loans mentioned above. In addition, the bankers' task force calls for consideration of "unfunded capital certificates similar to net worth or income capital certificates currently used for certain thrift institutions". The purpose of these non-GAAP regulatory accounting changes is "to keep agricultural banks open and to maintain their capacity to extend credit to borrowers". This, in our opinion, is as worthy an objective as the RAP differences which have drawn attention to our housing-specialized institutions from the GAO and other critics.

We are also intrigued by the "Federal Deposit Insurance Modernization Act", H.R. 4225, introduced last week by Congressman Barnard of this distinguished Subcommittee. As we understand it, that legislation would permit the FDIC to invest in a new "federal deposit insurance capital note" issued by its insured banks in an amount equivalent to the annual assessment retained by the FDIC after rebate. The invested funds would count as part of each bank's primary capital while the capital notes would count as part of the FDIC trust fund.

We would hope that your Subcommittee would pursue this new capitalization plan for FDIC-insured institutions and explore its eventual extension to those insured by the FSLIC.

Bank Board Regulatory Initiatives

Mr. Chairman, when the U.S. League testified before the Committee last October, we very strongly made the point that a merger of the FSLIC and the FDIC would be a mistake on a number of grounds, one of the most important of which is that it would deprive our industry of the creative and vigorous regulation and supervision that comes with uniting the chartering, insuring and liquidity-providing functions in one organization. The determination and effectiveness with which the Federal Home Loan Bank Board has attacked the industry's evolving problems in recent years bear ample witness to the benefits of such a unified system. At this point I would like to outline very briefly some of the more significant actions that the agency has been taking to deal with the situation.

A. Net worth/growth restraints: One of the most significant steps that the Bank Board has taken during the Gray Chairmanship has been to begin the painful but necessary process of reducing the leveraging possibilities available to FSLIC-insured institutions. While the previous standards were appropriate to an industry with investment choices rather narrowly focused on the residential mortgage area, they quickly proved ill-suited to the less restricted world, especially in state-chartered powers, that emerged in the wake of the Garn-St Germain Act. Some institutions were able to reduce their earnings problems through a prudently managed strategy of aggressive growth, but the financial landscape is littered, unfortunately, with the corpses of those who proved unable to make wise use of the flood of new deposits they attracted. The costs of their interment is the primary reason behind the Bank Board's imposition on FSLIC-insured thrifts of an additional 1/8 of 1% insurance premium. Without going into the details of the agency regulations tightening net worth requirements and limiting growth, their positive impact can be seen in the fact that deposits in FSLIC-insured institutions increased by only 7.5% in 1985, versus 16.9% in 1984. I should add, moreover, that the present regulations appear to be only an intermediate step, with the Bank Board apparently considering further toughening of its standards in the near future.

B. Direct investment limits: Perhaps the most controversial regulatory step that Bank Board members Gray, Hovde and Grigsby have taken is represented by the issuance of the agency's so-called direct investment rules. Essentially, these rules require institutions to obtain supervisory approval if they wish to invest in the aggregate more than 10% of their assets in equity interests in real estate, equity securities and service corporations (lower limits apply to entities not meeting net worth benchmarks). The Board's primary objective was to assure that diversification by state-chartered institutions into newly-authorized, non-traditional areas of business was accomplished in a manner that did not pose an undue threat to the investing institution and the FSLIC. Although there have been some complaints of arbitrariness in administration, on the whole our impression is that the regulations have had the salutary effect of compelling institutions to evaluate more carefully their investment decisions in this area.

C. Acquisition, development and construction loans: Integrally related to its direct investments concerns has been the Bank Board's approach to loans for acquisition, development and construction -- so-called AD&C loans. AD&C loans, because of the variety of ways in which they may be structured, often lie at the poorly delineated frontier between extensions of credit and direct investments. And, because of the possibility of booking up-front fee income if an asset is characterized as a loan rather than a direct investment, an obvious incentive exists to characterize a particular asset as a loan if possible, notwithstanding the underlying economic reality. The Bank Board's response to this situation basically was to establish, as part of its regulations certain standards designed by the accounting profession for the purpose of distinguishing whether an AD&C asset is a loan or a direct investment. Given the subjective criteria utilized in these determinations, we have been concerned about the agency's implementation of its AD&C regulations, but we cannot gainsay the legitimacy of the concerns that led to their issuance.

D. Classification of assets regulations: The most recent Bank Board regulatory initiative designed to improve the supervisory process is the issuance of the agency's classification of assets regulations. Based upon approaches used by the commercial bank regulatory agencies, the new classification methodology empowers supervisory personnel to require reserves to be established against assets determined to fall into "substandard," "doubtful" or "loss" categories. If an asset is judged to be substandard, the institution's regulatory net worth requirements will be increased by an amount equal to 20% of the asset's book value; if the asset is regarded as doubtful or loss, specific reserves of 50% or 100%, respectively, of its book value must be established. In addition, reflecting the Bank Board's long-standing interest in appraisal integrity, a real estate asset with respect to which agency appraisal standards are not met will be classified substandard, and, where no appraisal exists at all, the investment will be regarded as doubtful.

This new methodology obviously promises to be a potent tool for dealing with supervisory problems, and the U.S. League has been supportive of it, provided certain modifications are made. Most particularly, we have been concerned about the potential for arbitrary use inherent in the fact that the Bank Board's examination staff has been suffering from problems of inexperience and rapid turnover. We thus have urged the Bank Board to use the classification regulations initially on a targeted basis, focusing only on those institutions that are of the most supervisory concern, such as significant violators of the agency's deposit growth and direct investment restrictions.

E. Delegation of examination authority to FHLBanks: Another step the Bank Board has taken to improve its supervision is its delegation to the FHLBanks of the agency's examination authority. As you will recall from our October testimony, the U.S. League has been highly supportive of this initiative (authorized under part of the St Germain-Garn Act), which, by removing the examining staff from counterproductive OMB and OPM jurisdiction, should permit over time a very substantial improvement in the quality and effectiveness of the examination process. It is our hope that the rest of the agency's personnel similarly will be liberated, either by further use of Garn-St Germain authority or through additional legislation, such as is represented by the draft bill we submitted with our October testimony. We continue to believe the extra dollars this would cost our industry would pay ample dividends in terms of improved supervision and regulation. We would emphasize that any added costs are fully borne by our business, have no impact on the federal budget deficit, and should not be subject to Gramm-Rudman-Hollings limitations.

F. Establishment of Bank Board Office of Enforcement: A further indication of the Bank Board's increased emphasis on strong supervision is its recent establishment of a new office vested with responsibility for undertaking the agency's formal enforcement efforts, such as proceedings to obtain cease-and-desist orders. Previously, enforcement work was done by a division within the Office of the General Counsel. Apart from symbolizing the agency's greater commitment to strong supervision, establishment of the Office of Enforcement should permit a more rapid response to problems by removing review layers within the Office of the General Counsel and permitting more direct interaction between enforcement officials and regional supervisors.

G. Establishment of Management Consignment Program: The U.S. League long has expressed interest in Bank Board utilization of industry expertise, and we thus have been pleased by the very positive steps the agency has taken in this area with its Management Consignment Program. Basically, the program seeks to conserve FSLIC resources through retaining well-managed healthy institutions to run those with severely impaired net worth. In essence, it represents an alternative to a FSLIC-run receivership, and offers the FSLIC access to management skills and expertise that otherwise would be unavailable. We would note, however, that the program seems to lack a central vision in terms of the manner in which the overall FSLIC-protection objective is to be carried out; development of such a unifying theme strikes us as essential, and we suggest that, but for a few, unusual cases, it should revolve around an orderly shrinkage of the MCP institutions, rather than in strategies that which, if unsuccessful, could lead to additional losses and destabilize local market conditions.

H. Creation of Federal Asset Disposition Association: In an approach related to that employed in the Management Consignment Program, the Bank Board also has chartered a special new federal association designed to achieve a higher return on FSLIC receivership assets. Chartered under authority of the National Housing Act, the Federal Asset Disposition Association has been formed and capitalized as a private sector corporation, albeit one that ultimately is under the complete control of the Bank Board. Consequently, the FADA is able to hire top-notch private sector, entrepreneurial talent and to compensate those individuals on a competitive basis. The U.S. League believes that this approach will assure that FADA under its new president Roslyn Payne, will have a staff with the experience in work-out situations needed to minimize ultimate FSLIC financial exposure from failed institutions.

Legislative Action Needed

Of course, not all steps needed to achieve improved supervision and protect the FSLIC can be implemented under current statutory authority. There are a variety of legislative changes which would advance those twin causes, and upon which we urge you to act.

A. Need to close nonbank bank loophole: As you are well aware, the Supreme Court has shut the door on any possibility that the nonbank bank phenomenon may be reined in to any meaningful degree by the Federal Reserve Board under the Bank Holding Company Act, as that Act is currently written. The U.S. League thus believes it is imperative that Congress act at the earliest possible date to curb the spread of nonbank banks. Even if the courts ultimately uphold the extant challenge to the authority of the Comptroller of the Currency to charter limited purpose national banks, enough loophole banks still could be chartered under state law to seriously compound the disruption they already have brought to the financial system.

Apart from the damage they do -- unbuffered by any asset composition test requirement -- to the statutory barriers designed to separate banking from general commerce and investment banking, nonbank banks have had a serious impact on the ability of the FSLIC to interest organizations in acquiring failing thrifts. Prior to the widespread emergence of the nonbank bank phenomenon, the Bank Board had considerable success under the emergency acquisitions provisions of the Garn-St Germain Act (and other authority) in marketing problem cases to entities that wished to use those provisions to accomplish interstate or other transactions that otherwise would have been statutorily or regulatorily impermissible. Because approximately the same result, from the viewpoint of the potential acquirer, can be realized through chartering a new nonbank bank, the allure of the sick thrift has diminished vastly. Why take on the problems of a troubled institution when a healthy organization may be established?

It is, in our opinion, largely as the result of the impact of nonbank banks, that the Bank Board has proposed to alter its policy statement implementing supervisory interstate expansion authority for federal associations and permit acquirers of sick thrifts to branch in up to three additional states beyond that of the target institution. We regret that the uncontrolled flood of nonbank banks has led the Bank Board to such a proposal, which may have unsettling consequences, to say the least, for our members as well as their banking competitors. Our board of directors has not yet established our formal policy on this issue, but it, of course, will give very considerable weight to the extent to which implementation of the proposal could be expected to assist the FSLIC.

Mr. Chairman, we continue to applaud your efforts and those of your colleagues to deal with the problem of nonbank banks through securing passage of H.R. 20, the Financial Institutions Equity Act of 1985. We intend to bend our persuasive efforts toward bringing that bill to the floor for a vote, although we do hope that it will be open to amendments. As you are aware, while we are generally satisfied with the provisions of H.R. 20 directly affecting thrifts, there is considerable unhappiness in our industry over certain provisions of the bill. Most particularly, we would like to see modifications in the provisions imposing strong restrictions in the so-called tandem operations area. We are still not convinced of the appropriateness of penalizing commercial lending and trans-federal association investment authority by institutions not meeting the qualified thrift lender test.

B. Extension of Net Worth Certificate Act: Our testimony in October reflected our deep gratitude to you, Mr. Chairman, for your key role in securing enactment of the Net Worth Certificate Act, and for being at the forefront of the effort to secure an extension of that legislation. Thanks to your work and that of your colleagues, the Act's sunset date was pushed back to April 15, 1986. The U.S. League continues to hope that Congress will see fit to extend the Act for an additional three years. This valuable legislation permits well-managed institutions to escape unnecessary insolvencies, thus avoiding the disruptions and increased financial concentration and, potentially, some of the expenses associated with the forced merger route. It also enables the FSLIC and FDIC to devote more staff attention to resolution of truly serious cases involving problems of management or asset quality.

We note that Congressman Annunzio has introduced a bill, H.R. 913, that would make some very useful amendments to the Act, and commend them to your attention.

For your assistance, we have attached as Appendix A an updated version of a document that accompanied our October testimony and that discusses the general operation and usefulness of the Net Worth Certificate program.

C. Emergency authorities contained in Title I of Garn-St Germain Act: The U.S. League is also grateful to you and this Committee, Mr. Chairman, for your efforts in obtaining passage of legislation extending, again until April 15, 1986, the emergency authorities contained in Title I of the Garn-St Germain Act. As with the Net Worth Certificate Act, we urge you to extend these authorities for an additional three years; they are invaluable statutes from the standpoints of providing safety nets for the FSLIC and FDIC and their efforts to manage their caseloads. The emergency acquisitions power created by section 123 is the best known of these provisions, but the Act also provided valuable authority regarding conversions and receiverships that, given the pressures still affecting our industry, should not be allowed to expire.

To reiterate our October testimony, Section 123 (Section 116 is the FDIC analog) essentially allows the Bank Board, as a means of conserving FSLIC's resources, to authorize virtually any kind of acquisition of a savings institution, subject to antitrust limitations. This provision has been the source of great savings for the FSLIC, and, given the likelihood that the insurance fund will remain under considerable pressure for several years, promises to provide such savings in the future as well.

We oppose, however, substantive changes in the emergency acquisitions statutes of the sort contained in the Federal Savings and Loan Insurance Corporation Protection Act, H.R. 2444. That bill would strike the requirements that: (1) the Bank Board, in considering such emergency authorizations, must give consideration to the maintenance of specialized depository institutions; and (2) the agency, in authorizing those transactions, must do so pursuant to a bidding and priority frameworth basically designed to give first preference to savings institutions from the same state (and to minority-owned institutions with respect to acquisition of like institutions).

While the statutory framework admittedly would be somewhat easier to work with in the absence of the provisions sought to be deleted, we seriously doubt that it fairly can be blamed for causing FSLIC any excess costs with respect to assisted mergers. We must emphasize that the goals of ensuring continuation of depository specialization and local control are important ones that should continue to be linked to the emergency acquisitions authority. To reiterate, the League will resist strongly any attempt to delete these public-policy protections.

Another emergency provision that should be extended is section 121, which created section 5(p) of the Home Owners' Loan Act of 1933. Section 5(p) overrides any state or federal laws that might otherwise interfere with the Bank Board's authority to authorize mutual thrifts to convert to the federal stock form. Because the laws restricting conversions by federally-chartered savings institutions were eliminated by other permanent provisions of the Garn-St Germain Act, section 5(p) is of greatest significance to state-chartered institutions, with respect to which, of course, state law concerns remain significant.

One of the most important uses made of section 5(p) has been in connection with the Bank Board's modified conversion regulations. Under these regulations, converting, financially troubled organizations are allowed to restrict depositor subscription rights (the lower the entity's net worth, the greater the restriction allowed), thus making it easier for single investors to make substantial initial purchases of stock. This can be an essential ingredient in a successful conversion of an institution with low net worth, for capital injections under such circumstances are far likelier to come from persons or organizations seeking control than from large numbers of small investors.

Although, as indicated, section 5(p) appears primarily significant for state institutions, we note that the statute is cited by the Bank Board in its regulations as the official source of authority for any modified conversion of an institution, regardless of its source of charter.

A third emergency authority that merits extension is section 122(d)-(g). This provision -- subject to certain safeguards designed to accommodate dual system concerns -- basically gives the Bank Board (acting through the FSLIC) the same conservatorship/receivership authority over state-chartered institutions that it has over federals. Although our impression is that federal and state thrift regulators in recent years have cooperated very well in this area, section 122 assures the Bank Board of the ability to take prompt action in the event of a disagreement that the agency believes could result in unnecessary expense to the FSLIC.

Again, Mr. Chairman, we are grateful for the efforts you and your colleagues already have made to assure extension of these very important authorities.

D. U.S. League supports new FHLBB enforcement powers: Another area in which legislative action should have a salutary impact is that of formal enforcement powers. We continue to support in substantial degree the statutory changes the Bank Board is seeking in the H.R. 1680, the Insured Institutions Improvement Act. The U.S. League is in particular agreement with the general need to enhance the Bank Board's temporary cease-and-desist order powers.

For your convenience, as in our October testimony, we are setting out our detailed views in the Bank Board's proposal in Appendix B, rather than reviewing them in the main body of our testimony. In addition, Appendix C contains a short outline of the modifications that we believe should be made in the Bank Board's enforcement legislation. In our view, those modifications represent a reasonable reconciliation of the competing supervisory, due process, and public confidence issues involved.

Negative Impact of Tax Law Changes

The testimony of my colleague Gerald Levy before your full House Banking Committee last October addressed, as a matter of information, several problems created for the thrift industry and its insuring agencies by the comprehensive tax legislation, H.R. 3838, then pending before the House Ways and Means Committee. One major threat was averted by the decision of that Committee and the House to preserve some bad debt deduction opportunity for thrift institutions -- thus avoiding a disastrous and immediate financial statement impact through recapture of past bad debt reserve accumulations. We are hopeful that the Senate will accept that provision of H.R. 3838. The House-passed bill did not, unfortunately, provide a transition rule to permit some utilization of net operating losses from the years 1981 through 1985 which will expire soon under existing law. The NOL transition is particularly important for institutions which have been slow in returning to profitability and is essential to industry efforts to rebuild net worth.

However, many other problems remain in the massive re-write of the tax code. We appreciate, of course, that this Subcommittee does not have jurisdiction over Internal Revenue Code and that the House has completed its initial work on that legislation. Just the same, the pending tax law revisions, as they stand at this point in the legislative process, continue to have severe consequences, particularly for the FSLIC and the FDIC in their efforts to resolve problem cases.

There are several changes in H.R. 3838 which will make virtually impossible the resolution of problem cases at the FSLIC. The House bill would repeal as of January 1, 1986 special code provisions excluding FSLIC assistance payments from income and qualifying a supervisory acquisition as a tax-free reorganization. The tax writers in the House claimed a $1.6 billion revenue gain from repeal of these provisions -- but the costs to the government's deposit insurance fund will be many times that amount if problem cases cannot be resolved.

Not only should repeal be deferred to 1991 (as advocated by the President), but these tax code incentives to the least-cost resolution of problem cases are needed, as well, by the FDIC.

Matters are made worse by House language regarding the general corporate limitations on transfer of losses in mergers and acquisitions. The revisions to Section 382 of the Code made it impossible for supervisory conversions to meet continuity of interest requirements with loss-carryover appeal to an acquiring corporation -- thus driving away bidders for troubled thrifts. The definition of pre-acquisition net operating loss is broadened to include potential as well as unrealized losses. A severe limitation is imposed on the ability of any acquirer to make use of losses carried over from the company it has acquired.

Report language from the Ways and Means Committee goes so far as to cast doubt on whether a mutual-to-stock conversion by a healthy institution would continue to qualify as a tax-free reorganization -- thus discouraging one of the major means for infusing new capital into the thrift industry.

We are working hard in the Senate to remove these obstacles to problem-case resolution by the FSLIC and FDIC. If we are successful, we would hope to enlist the good offices of the Members of this distinguished Subcommittee to convince the House conferees of the need for change in the House-passed version of H.R. 3838.

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This concludes the prepared written statement of the U.S. League of Savings Institutions. We have appreciated your foresight in convening these timely hearings and look forward to any questions you might have.

APPENDIX A

AN ANALYSIS OF THE OPERATION OF AND NEED FOR THE NET WORTH CERTIFICATE PROGRAM

The U.S. League strongly urges the Congress to extend the net worth certificate program due to expire in April of this year. It is only in the last few months that interest rates have declined to a level that affords a real opportunity for the business to restructure and it will take some years before the majority of savings institutions will be in a position to live through a period of high interest rates without suffering significant losses. If interest rates remain low, the net worth certificate program would be relatively costless. If rates were to increase sharply, the certificate program would be an inexpensive way of helping the business weather the high rate period. If the program were allowed to expire, it would take time for Congress to reenact were it needed and the crisis atmosphere that such an effort would entail would further undermine a public confidence that has already been eroded by the difficulties at some large financial institutions and the problems with some of the state savings institution insurance funds.

As of December 31, 1985, 106 FSLIC-insured savings institutions were participating in the program and the FSLIC has purchased a total of $223.9 million in net worth certificates. (A total of 117 institutions had been approved, but 11 were out of existence by September 30, 1985.) At this stage, no "real money" has been spent in the program since there is no cash involved in the transaction unless an institution has to be liquidated.

The 106 institutions had total assets of $38.9 billion at the end of September 1985. If these institutions had to be liquidated instead of being supported by the net worth certificate program, the total cost would have been $6.2 billion, using the 16%-of-assets cost figure that is frequently used in such instances. Given the fact that the FSLIC had total reserves of only $7.5 billion at the end of last year, -- $6.2 billion is an impressively large figure.

The number of institutions using the program is small but there are particular reasons why more did not elect to participate.

The Bank Board in office when the program was instituted was inimical to it. The General Counsel for the Board at the time is quoted by the General Accounting Office as saying:

> "There should be every incentive for institutions not to participate in the program, or if they do . . . to graduate from it as quickly as possible. Therefore, participants should expect a certain degree of increased regulatory restraints and general operating discomforts."

At least in the beginning, the Bank Board made it difficult for institutions to participate. In particular, in the first four months after it started the program, the Board received 95 applications but only acted on 13 of them -- and of those, only four were approved and the others were either withdrawn or denied. Since interest rates were declining and conditions were beginning to improve in the industry, thereby reducing the need for institutions to get involved, the early delays were probably extremely important in keeping the number of participating institutions at a low level.

The processing delays resulted from two of the Bank Board's administrative requirements -- approval of institutions' appraised equity capital and submission of business plans as conditions of assistance. Neither of these requirements were set as conditions by the statute. According to a 1984 GAO report:

> "When institutions first began submitting required property appraisals, . . . Federal Home Loan banks began rejecting them for technical reasons. Some appraisals were rejected because they did not reflect highest market value according to Bank Board criteria; some applications were delayed because of confusion about when business plans were required -- before or after assistance was granted -- and about their content."

In addition to being an administrative headache, the requirement to recognize appraised equity capital before an institution was allowed to issue net worth certificates disqualified 125 institutions according to GAO estimates because it took them over the threshold 3% net worth ratio.

Furthermore, the Bank Board, in the beginning, was more miserly than the FDIC in the amount of assistance it would grant. When an institution first entered the program the Board would purchase only half of the certificates the institution was entitled to under the statute.

Also the act suggests that the agencies cover 70%, 60% or 50% of an institution's losses depending on whether the institution had a 1% , 2% or 3% net worth ratio, respectively. The Bank Board interpreted this to mean that it would first cover 70% of the losses up to the point at which it would bring the net worth, after assistance, to 1%. Then it would cover 60% of any remaining losses until the net worth ratio reached 2%. Finally, it would cover any more losses at 50% but only up to the point where the institution's net worth reached 3%.

According to the GAO, the Bank Board's assistance formula:

> "compared to the assistance allowed by the act's formula and available under FDIC's program, tended to decrease the amount of assistance available to qualified institutions. The act does not provide for the tiering calculation, nor for capping assistance at 3 percent net worth. FDIC, while capping assistance at 3 percent net worth level, does not use a tiering calculation when determining assistance amounts."

Under the chairmanship of Edwin Gray, the Federal Home Loan Bank Board liberalized the program. In September 1984, the Board eliminated the reduced initial assistance formula and the tiering calculation. The new formula provides for assistance at the maximum 70% suggested by the act with a cap at the 3%-of-assets net worth level.

In a new July 1985 report, the GAO found that the Bank Board and the FDIC were operating the programs in a manner that followed the intent of Congress:

> "We saw no indications of either agency departing from established statutory and regulatory eligibility criteria. Thus, we concluded that each agency was consistently applying its own eligibility requirements in granting thrifts net worth certificate assistance."

In the July report, the GAO pointed out that institutions that are receiving net worth certificates continued to lose money in 1984 while the business as a whole was profitable. The business, in the aggregate, was profitable in 1984, though only barely so. The return on assets for the year was only 0.11% and almost one-third of the industry was still losing money in the first quarter of 1985. Thus, it should not be surprising that institutions that were weak enough to qualify for assistance in the first place were still showing losses in 1984.

These institutions did make progress throughout 1984 and by midyear 1985 they were actually making a profit. The annualized return on assets by quarter for 1985 for the NWC recipients were:

First Quarter, 1985	-0.25%
Second Quarter, 1985	+0.09%
Third Quarter, 1985	+0.04%
Fourth Quarter, 1985	Unavailable (but given drop in interest rates, certainly no worse than break even)

Looked at another way, 34% of NWC institutions were running in the black in the first quarter of 1985, and 59% were profitable in the second quarter, with the figure rising slightly to 60% in the third quarter, the last for which we have data.

In May of 1985, the GAO released, without comment, a series of tables comparing institutions that have received net worth certificates with the business as a whole. One of these tables shows that the portion of assets in the form of fixed rate mortgages fell from 77.0% to 61.3% between December 1982 and September 1984 for those institutions receiving assistance. This decline of 15.7 percentage points compares with a decline of 18.9 percentage points for the business as a whole, where fixed rate mortgages fell from 72.1% to 53.2%.

Similarly, the percentage of assets in the form of ARMs for assisted institutions rose from 3.2% to 17.2% compared to a rise from 6.8% to 21.9% for all institutions. Although the GAO does not explicitly say so, one presumes that these figures are presented to show that institutions receiving net worth certificates are making less progress towards restructuring than the average institution. Again, these findings are not surprising. Many of the assisted institutions are located in areas where the real estate market is not as buoyant as in other areas and the fact that they have made only a little bit less progress in restructuring than the rest of the business argues on behalf of the continuation of the program.

In sum, it would appear very beneficial for the Congress to renew the program. It gives the regulators additional flexibility in dealing with problems, particularly the problems that would arise if interest rates were to climb again. It does not reduce the regulators' authority and flexibility in disposing of problem cases if the opportunity to do so exists. In fact, one of the explicit requirements of the Bank Board that must be met before an institution can issue net worth certificates is that a merger that would reduce the need for assistance is not available.

APPENDIX B

U.S. LEAGUE SUPPORTS NEW ENFORCEMENT POWERS FOR BANK BOARD

In terms of protecting the FSLIC, the Bank Board is keenly interested in upgrading its arsenal of enforcement tools in order to enable it to deal more effectively with some of the problems generated by "high-flier" institutions. The League, after long and detailed deliberations, has agreed to support important statutory changes in this area.

TEMPORARY CEASE-AND-DESIST ORDERS

Of these increased powers, the U.S. League believes that enhanced temporary cease-and-desist order authority would be among the most useful. Under present law, a temporary C&D -- which is, in effect, an administrative injunction -- may be used only where a violation of law, rule or regulation or an unsafe or unsound practice exists that could cause insolvency or substantial dissipation of assets or earnings, seriously weaken the condition of the insured institution or seriously prejudice the interests of its insured members. An institution facing such an order may contest it in U.S. District Court within 10 days of issuance; otherwise, the order remains effective until the underlying issues are adjudicated administratively.

The Bank Board, in its Insured Institutions Improvements Act, H.R. 1080, is seeking to eliminate "substantial" and "seriously" as modifiers of the terms dissipation and weaken, respectively. The League has determined that we can support this, subject to several conditions. First, such orders should be in effect only for 60 days, after which the current standard would have to be met. We believe this would give the agency adequate time to deal with emergency situations with what amounts to the free hand available in the temporary order context, without substantially compromising the general principle that injunctive-style relief requires the meeting of very significant initial standards (e.g. irreparable injury).

Second, this extraordinary new authority would be subject to a 2-year sunset provision. This would provide Congress with an opportunity to assess, within a relatively short time frame, the manner in which the new authority had been exercised by the supervisory authorities.

Third, procedural safeguards should be implemented to ensure full review of relevant files by the Principal Supervisory Agent and the General Counsel, with the opportunity for an informal plea (absent emergency conditions) to the Bank Board members by the target prior to issuance of such an order.

with access by the target to the staff memo requesting the order. These safeguards are designed to underline the fact that the new temporary order is not something to be employed without the most serious review and consideration.

The League also has elected to support the Bank Board in its effort to obtain an additional temporary order that would allow the Bank Board to require cessation of any action the agency deemed appropriate if, because of incomplete or inaccurate records, the agency, after reasonable effort, was unable to determine an institution's financial condition. While we believe the above procedural safeguards should apply to record-keeping temporary orders as well, the League does not believe a sunset provision to be necessary, in light of the central and paramount importance of complete and accurate records to the supervision of our system of federally-insured depository institutions.

CEASE-AND-DESIST AUTHORITY

The Bank Board is also seeking to have persons filing (or required to file) a Change in Savings and Loan Control Act notice, and subsidiaries of service corporations added to the list of entities against which C&D orders (or temporary C&D orders) could be issued. In addition, orders could be issued against individuals who have resigned from a potential target organization and against an insured institution (or related individuals or an affiliate) during the two-year period after termination of insured institution status during which an institution still has insured accounts. The U.S. League has no objection to these proposals, provided the ability to obtain C&D orders against individuals who have resigned lasts only for two years after resignation. We believe this would represent a reasonable statute of limitations.

REMOVAL/PROHIBITION AUTHORITY

In addition to proposing increased temporary and standard cease-and-desist order authority, the Bank Board has requested greater removal and prohibition power, as well.

At present, removal/prohibition actions may be mounted against any officer or director of an insured institution, its service corporation or its holding company (or any subsidiary thereof) where, *inter alia*:

(1) there was (a)(i) a violation of a law, rule, regulation or cease-and-desist order which has become final;

(ii) an unsafe or unsound practice; or

(iii) a breach of fiduciary duty; and as a result,

(b)(i) the organization has suffered, or probably will suffer, substantial financial loss or other damage;

(ii) the interests of its insured members could be seriously prejudiced; or

(iii) the individual has received financial gain as a result of his conduct; and

(c) the conduct involved personal dishonesty, or has demonstrated or a willful or continuing disregard for the safety or soundness of the organization; or

(2) there was (a) conduct with respect to another business organization that resulted in substantial financial loss or other damage; and

(b) the conduct involved personal dishonesty or a willful or continuing disregard for the safety and soundness of the institution; and

(c) there is evidence of the individual's unfitness to continue as an officer or director.

Under the Bank Board's proposal, the "substantial" and "seriously" modifiers would be dropped from #1(b) and #2(a), breach of "professional duty" would be added to and equated with breach of fiduciary duty in #1(a), and receipt of financial gain would be added in #2(a) as the equivalent of loss to the employer. In addition, removal/prohibition actions could be taken against any person against whom a cease-and-desist order could be issued (subject, of course, to different criteria) and during the same period of time.

The League must decline to support the Bank Board's proposed elimination of "substantial" and "seriously" as modifiers, respectively, of the financial loss or prejudice to insured members' criteria, or its desired equation of breach of professional duty with breach of fiduciary duty as a removal criterion. The current removal standards generally seem suited to the seriousness of the penalty, and the League believes the weakening of those standards envisioned by the Bank Board would be inappropriate. In addition, we believe the concept of breach of professional duty is far too ambiguous for employment in the removal/prohibition context. The League supports, however, the Bank Board's proposed expansion of the list of potential removal/prohibition order targets, as well as the equation sought by the agency of receipt of financial gain with loss to the employer.

AUTHORITY TO SEEK INJUNCTIONS

At present the Bank Board basically is required to seek correction of unsafe or unsound practices or violations of law or regulation through a procedure that permits recourse to the courts only upon appeal from the agency's final administrative adjudication of the matter. As part of its enforcement proposal, however, the Bank Board is seeking authority to go into U.S. District Court to obtain injunctions against such violations of unsafe or unsound practices when it determines that its administrative enforcement provisions are insufficient to resolve adequately the situation.

The League understands the Bank Board's desire to have a broad variety of rapid-acting enforcement tools, but we cannot support granting the agency a direct judicial injunction option. We believe the adverse publicity that necessarily would be associated with public court battles over Bank Board requests for equitable relief inevitably would be damaging to public confidence, not just in the target institution, but in other associations as well. Moreover, given the substantial increment of temporary C&D power -- which essentially is injunctive power -- that the Bank Board is seeking and that the U.S. League is willing to support, we fail to see any real need for placing this additional tool at the Bank Board's disposal.

CHANGES IN CONTROL

In our view, one of the key aspects of the Bank Board's request for additional enforcement authority is its inclusion of provisions designed to give the agency more power to scrutinize changes in control. Essentially, the Bank Board is asking for enhancement of its definitional power regarding key terms -- such as "control" and "acting in concert" -- used in the Savings and Loan Holding Company Amendments of 1967 and the Change in Savings and Loan Control Act. The League strongly supports the Bank Board's efforts to gain more authority to pass upon the suitability of those persons and organizations wishing to acquire control of FSLIC-insured institutions.

UNSAFE OR UNSOUND PRACTICES

Another component of the Bank Board's enforcement package that the League supports involves a codification of the definition of the term unsafe or unsound practices. Such practices, currently statutorily undefined, would be defined as encompassing "any action or omission which is, in the opinion of the [FSLIC], contrary to generally accepted standards of prudent operation, whether relating to the association's internal management or to any external matter, the possible consequences of which, if continued, may pose abnormal risk of loss or damage to an insured institution or any subsidiary thereof, to its stockholders or accountholders or to the [FSLIC]."

Basically, this would incorporate into the statute, with some modification, explanatory language from a 1966 memorandum from then Bank Board Chairman John Horne to Congress regarding the meaning of the term unsafe or unsound practices. This memorandum is part of the legislative history of the Financial Institutions Supervisory Act of 1966, and at present represents the most authoritative definition of that term. Although, as noted, the League supports this definition, we urge that the legislative history of the proposed codification include language clearly indicating that, regarding external matters, it is not Congress' intent to have prudent managers classified as committing unsafe or unsound practices when they are victimized by conditions beyond their control, such as high interest rates.

INVESTIGATIVE AUTHORITY

A further feature of the Bank Board enforcement package that the U.S. League can support is its improvement of investigative authority. H.R. 1080 would provide that entities that no longer have FSLIC insurance or that no longer are affiliated with FSLIC-insured organizations could be investigated by the Bank Board with regard to conduct that occurred when they were so insured or affiliated. This strikes us as a reasonable increment of authority that would help the agency better carry out its enforcement responsibilities.

SUBPOENA ENFORCEMENT

A final enforcement tool the League endorses involves the consequences of failure to obey a Bank Board subpoena. Under H.R. 1080, failure, without just cause, to comply with a Bank Board subpoena would be made a misdemeanor punishable, upon conviction, by a fine of not more than $1,000 and/or imprisonment for a term of not more than one year. Again, we believe this is a reasonable provision that materially would assist the Bank Board in its enforcement efforts.

APPENDIX C

PROPOSED U.S. LEAGUE MODIFICATIONS TO FHLBB ENFORCEMENT LEGISLATION

Pursuant to the vote of its board of directors, the U.S. League supports the Federal Home Loan Bank Board's enforcement proposal in its entirety, subject to the modifications described below.

1. Temporary cease-and-desist orders: The U.S. League supports both the enhanced "standard" temporary C&D and the record-keeping temporary C&D, provided they are modified as follows:

-- standard TC&D only applies for 60 days, after which agency must meet standard of proof for current TC&D;

-- standard TC&D (but not record-keeping TC&D) sunsets after two years; and

-- standard and record-keeping TC&Ds would be accompanied by procedural safeguards ensuring that they would issue only after a full review of relevant files by the PSA and the General Counsel, and the opportunity for an informal plea (absent emergency conditions) to the Bank Board members by the target prior to issuance of such an order, with access by the target to the staff memo requesting the order.

2. Cease-and-desist orders: The U.S. League supports the expanded applicability of C&D orders, but believes the ability of the agency to obtain C&D orders against individuals that have resigned should only last two years.

3. Removal/prohibition orders: The U.S. League supports the Bank Board's proposed expansion of the list of potential removal/prohibition order targets, as well as the equation, in the removal criteria area, of receipt of financial gain with loss to the employer. We do not support, however, the agency's proposed elimination of "substantial" and "seriously" as modifiers, respectively, of the financial loss or prejudice to insured members criteria, or its desired equation of breach of professional duty with breach of fiduciary duty.

4. Injunctions: The U.S. League opposes the Bank Board's proposed addition to its enforcement tools of the ability to obtain injunctive relief against regulatory violations or unsafe or unsound practices. This additional power appears unnecessary in light of the enhanced TC&D authority we are willing to support.

5. Unsafe or unsound practices definition: The U.S. League supports the Bank Board's proposed statutory definition of what constitutes an unsafe or unsound practice, provided that the proposed codification contains language clearly indicating that it is not Congress' intent to have prudent managers classified as committing unsafe or unsound practices when they are victimized by conditions beyond their control, such as high interest rates.

Chairman St Germain. Thank you, Mr. Janis. Now we'll hear from Kenneth Albers of the Provident Savings Bank, and appearing on behalf of the National Council of Savings Institutions.

Mr. Albers, we will put your entire statement in the record and you may proceed.

STATEMENT OF KENNETH F.X. ALBERS, CHAIRMAN OF THE BOARD, PROVIDENT SAVINGS BANK, JERSEY CITY, NJ, ON BEHALF OF THE NATIONAL COUNCIL OF SAVINGS INSTITUTIONS

Mr. Albers. Mr. Chairman, distinguished members of the Financial Institutions Subcommittee, I am Kenneth F.X. Albers, chairman of the board, Provident Savings Bank, Jersey City, NJ, appearing in my capacity as chairman of the National Council of Savings Institutions.

The National Council consists of some 600 savings banks and savings and loan associations with total footings, total assets in excess of $450 billion and an average net worth under GAAP accounting of 5.65 percent.

We are pleased to accept your invitation to testify on the financial condition of the industry and its deposit insurance agencies. This hearing is particularly timely in light of the just-released GAO report which we have all heard.

While we do not concur in the conclusions of the GAO study insofar as it seeks to project the cost to the FSLIC of resolving its problem cases, we do agree with the basic factual finding that the thrift industry now consists of two very different segments.

The large majority by far consists of those savings banks and those savings and loans which have survived the crisis of the 1980's, rebuilt their capital positions and now have excellent future earnings prospects.

The other portion of the industry consists of those institutions for whom, unfortunately, there is little or no hope that they will ever again be viable institutions.

Since it is neither desirable nor feasible to turn back the clock on deregulation, our task now is to accomplish the necessary changes in Federal supervision and the administration of our deposit insurance programs that will retain the benefits of deregulation for the healthy segment of the industry while getting on with the business of resolving problem cases.

While earnings and capital positions at thrift institutions were severely eroded in the period, 1979 through 1983, substantial progress in rebuilding net worth has been made over the last 2 years. Our research department reports that FDIC-insured savings banks earned a record $1.2 billion in 1985. 1986 should even be better. Virtually all savings banks are operating in the black at this time. The lower interest rate environment has also permitted a growing number of institutions to go to the capital markets for stock conversions and other financial offerings. And these institutions that have gone to the market have been very well received and the secondary market action has been very positive.

The thrifts coming to market are considered one of the hot-type issues right now.

On the savings and loan side, the picture is equally favorable insofar as total earnings are concerned, although, as the GAO report points out, there continue to be a fair number of individual institutions which are not participating in the turnaround.

Notwithstanding the individual exceptions, 1985 was a year of significant gains with the FSLIC-insured institutions booking approximately $4 billion in profits. The industry made major strides in rebuilding net worth and this should continue into 1986 since our preliminary estimates call for a profit of some $3½ to $5 billion.

There are some other very encouraging developments on the supervisory front with the transfer of the Bank Board's examination staff to the district banks, an increase in authorized staffing levels for both the Federal Home Loan Bank Board and FSLIC, and the startup of the Federal Asset Disposition Association, or the so-called 406 Corporation.

It's unfortunate that the industry's positive financial trends and these important new regulatory developments have not attracted more media attention.

We had one of the finest years in the history of the thrift industry and you would hardly know it from reading the press.

Our full statement includes a summary report on the net worth assistance program established by the FDIC pursuant to the Garn-St Germain Act of 1982. Initially, 30 savings banks participated and at present, all but 18 of these have either been recapitalized or have repaid their certificates. All capital assistance institutions reported a profit in either the third quarter or fourth quarter of 1985. No institutions are currently receiving new capital infusion since the program requires two consecutive quarters of operating losses.

Given the lessons of the recent past, however, and the alarming size of the present budget deficits, we cannot discount the possibility we could witness the return of a higher rate environment.

If this is the case, it will be essential, then, to have this proven program in place and ready to go. Thus, we recommend an extension of the program and the other emergency assistance authorities of the Garn-St Germain beyond the April 15 expiration.

As the principal insurer of the Nation's thrift institutions, approximately 2,800 savings and loan associations and 400 Federal savings banks, the FSLIC has had to confront an unprecedented proportion of problem institutions since the 1980's. Thus, their resources have been reduced dramatically over the last few years, limiting the options available to address the significant number of problem institutions which GAO has talked about.

Clearly, FSLIC is threatened by these circumstances. The point that we would like to make today is that well-managed, profitable members of the industry are also affected by weaker institutions. In many cases, weaker institutions attempt to price their way out of trouble and we frequently see a situation in which the highest deposit rates are offered by the very institutions operating under Government management contracts or otherwise operating only through FSLIC forebearance.

The National Council fully appreciates the monumental problems now facing the FSLIC and the Home Loan Bank, but we are gravely concerned about any course of action which amounts to penalizing the healthy institutions to prop up defunct competitors. The special assessment imposed last March has doubled the cost of FSLIC insurance and must be brought to an end as soon as possible if FSLIC is truly to be a viable alternative to the FDIC insurance.

We cannot afford to lose sight of the fact that healthy institutions must avail themselves of market opportunities to grow and prosper in the years ahead. We commend, for example, the proposed Home Loan Bank policy change that would permit federally chartered associations to branch on the same terms as State-chartered thrifts in those States participating in regional compacts.

We have previously testified before this committee on the steps which the National Council's Task Force on Alternatives to Reregulation has recommended as the best means to alleviate the financial strains now facing the FSLIC.

Let me mention just three.

We recommend risk-based capital requirements as an important step toward providing protection for insurance funds against excessive risk taking by insured institutions. Under the task force's plan, higher risk institutions would be required to have capital ratios above the base requirement applicable to other FSLIC operations, generally.

Our business, gentlemen, is essentially, to use baseball terminology, singles and doubles business. When we are swinging for home runs, things happen.

Risk-related capital will make certain those who choose to swing for triples and home runs have the capital to sustain them or they will not be able to do that.

In order to decrease the incidence of problem cases, the task force believes that reporting and examination frequencies should also be scaled to the levels of risk-based capital. The lower your capital ratio, the more intense the examination, the more frequent the examination and the more you are subjected to answering questions to the regulators, the most intensive monitoring naturally on those with negative net worth positions.

We continue to recommend the establishment of special purpose corporations, as needed, in each Federal Home Loan Bank Board district for the purpose of handling insolvent institutions. As presently constituted, 406, we think, is a step in the right direction, but it's designed only to deal with the sale of foreclosed properties.

What is really needed is a precise time schedule of events and actions which should be followed in dealing with the entire situation.

Before an institution is put in the hands of special purpose corporation, every effort to find a merger partner or acquirer should be conducted. In this regard, the National Council suggests that the Bank Board modify its present policy regarding eligible acquiring institutions to include any well-capitalized responsible corporation. The present practice of excluding securities companies and utilizing bank holding companies as a last resort, in our opinion, should be abandoned.

Mr. Chairman, and members of the subcommittee, we have passed the point where half-steps will carry the day. The suggestions we have outlined today emphasize the private sector involvement and can be implemented immediately. When combined with the improved interest rate environment which all thrift institutions are now operating, we are far from convinced that FSLIC lacks sufficient resources and future income prospects to solve its own problems.

Most importantly, from the standpoint of the institutions we represent, I would like to stress that the remaining institutions, that the remaining and, in our view, diminishing problems of the industry, must be resolved without encumbering healthy banks and savings and loan associations.

At the end of this month, the final step in the 6-year deregulation of deposit rate ceilings will occur. This committee was instrumental in pushing through the painful, but necessary, abolition of protected status for the thrift industry.

We look forward to 1986 as another very good year based on all economic factors and we can only hope that the political fallout from the Ohio and Maryland crisis is not directed at those thrift institutions which have prudently and responsibly responded to the challenges of financial deregulation.

Mr. Chairman, that concludes my statement. I would be pleased to try to answer any questions you or the subcommittee may have.

[The prepared statement of Mr. Albers on behalf of the National Council of Savings Institutions follows:]

FINANCIAL CONDITION OF DEPOSITORY INSTITUTIONS

Statement of

Kenneth F. X. Albers
on behalf of the
National Council of Savings Institutions

before the

Subcommittee on Financial Institutions Supervision,
Regulation and Insurance
of the
Committee on Banking, Finance and Urban Affairs
U. S. House of Representatives

Room 2128 Rayburn House Office Building
March 5, 1986
10:00 a.m.

Mr. Chairman and distinguished Members of the Financial Institutions Subcommittee my name is Kenneth F. X. Albers, chairman of Provident Savings Bank, Jersey City, Jersey. I am appearing today in my capacity as chairman of the National Council of Savings Institutions, a trade association consisting of approximately 600 savings banks and savings and loan associations with total assets in excess of $450 billion. Our members include both FDIC- and FSLIC-insured savings institutions; these institutions average slightly more than $800 million in deposits and 5.65 percent in capital as measured by Generally Accepted Accounting Principles.

We are very pleased to accept your invitation to testify on the financial condition of the industry and its deposit insurance agencies. This hearing is particularly timely in light of the just released GAO Report on "Thrift Industry Problems: Potential Demands on the FSLIC Insurance Fund." This report was prepared at the request of Congressman Stan Parris (R-VA), and I would like to begin by complimenting Representative Parris for the leadership that he has demonstrated on this issue of critical importance to our industry and the millions of depositors that we serve.

While we do not concur in the conclusions of the GAO study insofar as it seeks to project the cost to the FSLIC of resolving its problem cases, we do agree with the basic factual finding that the thrift industry now consists of two very distinct segments. The large majority by far consists of those savings banks and S&Ls which have survived the crisis of the early 1980s, rebuilt their capital positions and now have excellent future earnings prospects. The other portion of the industry consists of those institutions for whom there is, unfortunately, no hope that they will ever again be viable competitors in the deregulated financial sector.

Since it is neither desirable nor feasible to turn back the clock on deregulation, our task now is to accomplish the necessary changes in federal supervision and the administration of our deposit insurance system that will retain the benefits of deregulation for the healthy segment of the industry while getting on with the business of resolving problem cases. As the decade of the 1980s has unfolded, interest rate risk for thrift institutions has largely been replaced by asset quality problems. This means that we cannot rely solely on programs such as net worth assistance which were designed to buy time pending the return of lower interest rates. Time is still an important ally, but we also need some policy changes and decisive action.

INDUSTRY OVERVIEW

As mentioned, the majority of savings banks and savings and loan associations have not only returned to profitability but have sufficiently restructured their portfolios to retain a favorable earnings outlook even should interest rates rise moderately. This is not to say that the transformation to the more competitive banking environment of the 1980s is complete. Cost-cutting, product realignment, controlled growth, and portfolio restructuring are the key elements of success in recent years and, as we have seen, management is not in place at every institution to accomplish these difficult tasks. Indeed, over the last ten years, the thrift industry has shrunk by over 1,000 institutions, or fully 20 per cent, and additional consolidation seems certain.

While earnings and capital positions at thrift institutions were severely eroded over the period 1979-1983, substantial progress in rebuilding net worth has been made over the last two years. Our Research Department reports that FDIC-insured savings banks earned a record $1.2 billion in 1985, and 1986 should be even better. Virtually all savings banks are operating in the black at this time, and this is the first time that this has been the case since 1979. The lower interest rate environment has also permitted a growing number of institutions to go to the capital markets for stock conversions and other financial offerings. This combination of retained earnings and new stock offerings has resulted in a marked improvement in industry capital:

CHART I

Annualized Net Change in Savings Bank Surplus
as Percentage of Average Assets, Quarterly

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Calendar Year
1985	.30%	.40%	.35%	.55%	.40%
1984	*	-.12	.16	.29%	.08%
1983	-.04	.32	.17	.15	.15
1982	-.92	-.88	-.64	-.35	-.86
1981	-.48	-.76	-1.08	-1.20	-.86
1980	.28	.40	-.32	.04	-.10
1979	.68	.56	.44	.24	.47
1978	.60	.72	.56	.40	.57
1977	.60	.60	.56	.44	.55
1976	.40	.44	.56	.36	.44
1975	.32	.40	.44	.36	.38

p = preliminary, based on July 1985 data
** = Less than .005 percent.

Note: Data refer to net changes in surplus, undivided profits, reserves from retained earnings and exclude debentures, capital infusions from FDIC, net worth certificates and net stock issues.

On the savings and loan side, the picture is equally favorable insofar as total earnings are concerned, although, as the GAO Report points out, there continue to be a fair number of individual institutions which are not participating in the industry turnaround. Notwithstanding these individual exceptions, 1985 was a year of significant gains with FSLIC-insured institutions booking approximately $4 billion in profits. The industry made major strides in rebuilding net worth and this should continue in 1986 since our preliminary estimates call for a $3.5 - 5 billion profit for FSLIC-insured institutions.

CHART II

Retained Earnings as Percent of Total Assets
of Savings and Loans 1975-1985

Year	Percent
1975	0.47%
1976	0.63
1977	0.77
1978	0.81
1979	0.67
1980	0.13
1981	-0.73
1982	-0.64
1983	0.27
1984	0.15
1985p	0.56

p = preliminary

Perhaps the best indicator of the health of an industry is the market acceptance accorded the stock and other financial offerings issued by the member firms. On this score, thrift stock offerings have consistently out-performed the general market over the course of the last 15 months as demonstrated by the Salomon Brothers Thrift Stock Price Index which in 1985 rose by 60%, more than twice the 26% gain recorded by the Standard & Poor's 500. In addition to the favorable reaction of the domestic market, U.S. thrift institutions have been very well received in the Euromarkets with approximately 20 institutions making successful offerings in the last two years. To educate both issuers and investors in this growing market, the National Council will be holding a Euro-American Mortgage Capital Markets Conference in London, June 1-3, 1986. This international exchange among financial leaders follows up on the highly successful conferences sponsored by the Council last year in Zurich and Tokyo.

Given this favorable economic environment, now is the time for the industry to take additional steps to strengthen itself by increasing capital to the levels that pertained prior to the late 1970s. Thus the National Council supports the announced intention of the FHLBB to raise capital requirements in line with the requirements now applicable to commercial banks. In doing so, we assume the FHLBB will devise an appropriate phase-in period as was provided by the FDIC to non-complying savings banks when it raised to 6 per cent the minimum ratio of capital to total assets.

There are also some other very encouraging developments on the supervisory front with the transfer of the Bank Board's examination staff to the District Banks, an increase in the authorized staffing levels for the FHLBB and FSLIC, and the start-up of the Federal Asset Disposition Association, or so-called 406 Corporation. It is unfortunate that the industry's positive financial trends and these important new regulatory developments have not received more media attention.

THE DEPOSIT INSURANCE FUNDS

FDIC

The Federal Deposit Insurance Corporation has been responsible since its creation in 1933 for insuring savings banks. Over the course of the last year, the FDIC has become the federal insurance agency for another 200 thrift institutions consisting primarily of Massachusetts-based savings and cooperative banks which were previously insured by a state-sponsored fund. The shift to federal insurance in Massachusetts is all but complete and the fact that it has been accomplished without public incident is a testament to the goodwill of all the interested parties including the industry, the state regulators and the FDIC.

At the federal level, the FDIC continues to devote considerable time and resources to problems associated with those savings banks which were most severely impacted by the adverse interest rate climate. There have been 17 FDIC-assisted supervisory actions involving savings banks since 1980, and in most cases the problem institutions were merged into other savings banks.

Initially, 30 savings banks participated in the Net Worth Assistance Program established by the FDIC pursuant to the Garn-St Germain Act of 1982 (see Appendix A). At present, all but 18 of these have either been recapitalized or have repaid their certificates. All capital-assistance institutions reported a profit in either the third or fourth quarter of 1985. Thus, no institutions are currently receiving new capital infusion since the program requires two consecutive quarters of operating losses to qualify. In short, this program has been extremely successful from both the standpoint of the industry and the FDIC. All of the net worth banks have taken advantage of the additional time to improve earnings and to begin the process of restoring capital to required regulatory levels. In fact, five of the participating institutions have begun to retire their net worth certificates ahead of schedule, and a number of others are expected to follow shortly.

Given the lessons of the recent past, however, and the alarming size of present budget deficits, we cannot discount the possibility that we could witness the return of a higher interest rate environment. If this is the case, then it will be essential to have this proven program in place and ready to go, and thus we recommend an extension beyond the current April 15, 1986 expiration date of the net worth program. It is also important to build some additional flexibility into the administration of the program that will allow repayment of net worth certificates to vary with each institution's business plan for complying with the FDIC's 6 per cent capital requirement.

Before leaving the subject of net worth banks, I would like to mention that one of the major issues holding up the necessary recapitalization of additional institutions is uncertainty over their tax status as it relates to the carryover of net operating losses. This is a problem created in part by current law which limits tax loss carryforwards to five years and in part by passage of the House tax reform bill H.R. 3838 which calls into question the carryover of tax losses when a mutual institution reorganizes into stock form. While not within the province of this committee, we hope that any tax bill which emerges from this Congress will assist rather than deter the efforts of these institutions to attract outside capital.

FSLIC

As the principal insurer of the nation's thrift institutions — approximately 2,800 S&Ls and 400 federal savings banks — the Federal Savings and Loan Insurance Corporation has had to confront an unprecedented proportion of problem institutions since the early 1980s. Many cases had to be resolved with FSLIC financial assistance and, of course, this had to be accomplished without the benefit of off-setting income from a large universe of healthy institutions as has been the case with the FDIC. Thus, FSLIC's available resources have been reduced dramatically over the last few years, clearly limiting the options available to address the significant number of "problem" institutions which the GAO has identified.

Clearly, FSLIC is threatened by these circumstances, but the point we would like to emphasize today is that well-managed, profitable members of the industry are also affected by the weaker institutions. In many cases weaker institutions attempt to price their way out of trouble and we frequently see a situation in which the highest deposit rates are offered by the very institutions operating under government management contracts or otherwise operating only through FSLIC forebearance. On the asset side, many of these same institutions are underpricing their loans or, worse yet, scrambling to put high yielding assets on their books without sufficient regard for proper underwriting standards.

The National Council fully appreciates the monumental problems now facing the FSLIC and its parent agency the FHLBB, but we are gravely concerned about any course of action which amounts to penalizing healthy institutions to prop up defunct competitors. The special assessment imposed last March has doubled the cost of FSLIC insurance and must be brought to an end as soon as possible if FSLIC is to continue to be a viable insurance alternative to the FDIC.

Moreover, remedial steps to address the FSLIC problems must take cognizance of the need to distinguish between the strong savings and loan associations that have successfully managed the transition to deregulation and those that have not. Granted there are many and pressing problems confronting thrift industry regulators, but we cannot afford to lose sight of the fact that healthy institutions must be able to avail themselves of market opportunities to grow and prosper in the years ahead. We commend, for example, the proposed FHLBB policy change that would permit federally-chartered associations to branch on the same terms as state-chartered thrifts in those states participating in regional compacts. In fact, the Council is urging the Board to go one step further and permit interstate banking to the same extent that state statutes authorize commercial banks to move across state lines.

Unfortunately, some of the Board's other policies, not to mention some congressional reactions, have relied on across-the-board remedies rather than the admittedly more difficult task of delineating between what might aptly be described as the industry's "haves" and the "have nots". For example, in limiting the direct investment authority of state-chartered institutions, the Board's regulation does not distinguish between well-capitalized savings and loan associations and those operating with little or no capital. It should be axiomatic that it is management's handling of investment powers, not powers per se, that have led to the well-publicized problems of recent years.

We have previously testified before this Committee on the steps which the National Council's Task Force on Alternatives to Reregulation has recommended as the best means to alleviate the financial strains now facing the FSLIC. I would like to mention three of them today since they relate directly to the central theme of today's testimony, namely the need to address supervisory solutions to the problem institutions:

1. Risk-related net worth requirements.

The National Council recommends risk-based capital requirements as an important step toward providing protection for the insurance funds against excessive risk-taking by insured institutions. Under the Task Force's plan, higher-risk institutions would be required to have capital ratios above the base requirement applicable to FSLIC-insured institutions generally. It is important to note, however, that in measuring risk, the focus should be on the entire institution and the rating system should encompass all types of risk (interest-rate, asset quality, managerial, etc.). In other words, risk should not be based on whether the institution utilizes powers granted at the state or federal levels, but on the performance and soundness of the institution as a whole.

If an institution's existing net worth is below the required standard, it would be subject to the following strictures: (1) the institution would automatically be subject to increased and intensified examination at its own expense; and (2) the institution would be required to submit a business plan indicating how it intends to reduce its risk exposure and/or increase its net worth. Progress in achieving these goals would be carefully monitored.

In addition, immediate action would be taken against institutions not meeting their net worth requirements to prevent such institutions from pricing deposits outside of their peer group rate structure. Ultimately, failure to move toward an improved risk-capital relationship or any deviation from the controls placed upon them would expose the institution to cease and desist or removal actions by the regulator. In this respect, as well as in other cases where the situation warrants, the Task Force urges full use of the Bank Board's enforcement authority, which is more than adequate under existing law.

2. Examination and supervision linked to risk-related net worth requirements.

In order to decrease the incidence of problem cases, the Task Force believes that reporting and examination frequencies should also be scaled to levels of risk-based required net worth. In general, well-capitalized institutions will be subjected to current reporting and examination rules, with each examination focusing on several specific aspects of the thrift's operations. As the institution drops below its required net worth level, examination frequency and/or scope will increase, with most intensive monitoring applied to those with negative net worth.

To some extent the Board is already doing this but, unlike the FDIC system, low net worth institutions are not always required to file business plans or other such devices aimed at laying out the path the firm will take toward reaching minimum capital levels. For state-chartered institutions meeting or exceeding net worth requirements state examinations should be allowed to substitute for federal examinations at the discretion of the federal regulator. This would have the effect of conserving FHLBB staff resources and allowing more attention to be focused on problem institutions.

3. Handling of insolvent institutions.

The Task Force continues to recommend the establishment of special purpose corporations, as needed, in each Federal Home Loan Bank District for the purpose of handling insolvent FSLIC-insured institutions. As presently constituted the 406 Corporation is a step in the right direction, but it is designed to deal only with the sale of foreclosed real estate. What is really needed is a precise time schedule of events and actions which should be followed in dealing with the entire institution. The objective, simply stated, is to reduce costs to FSLIC by establishing a new mechanism for the disposition of problem cases as well as for the earlier resolution of institutions approaching insolvency.

The directors and managers of these special purpose corporations would be covered by FSLIC indemnification agreements as under the current management consignment program. Rather than being in a holding pattern, however, the function of these corporations would essentially be to manage the orderly least-cost disposition of the assets and liabilities of FSLIC-insured institutions for which no merger partners or acquirers can be found, which have been declared insolvent and which have gone into receivership.

Before an institution is put in the hands of the special purpose corporation, every effort to find a merger partner or acquirer should be conducted. In this regard, the National Council suggests that the Bank Board modify its present policy regarding eligible acquiring institutions to include any well-capitalized responsible corporation. The present practice of excluding securities companies and utilizing bank holding companies as a last resort should be abandoned immediately. The "have nots" of the industry desperately need the capital, and frankly neither the FSLIC nor the healthy segment of the industry can any longer afford the luxury of turning potential acquirers away.

It would be naive to think that the work of the FSLIC, the newly created Asset Disposition Association, or any other 406 entity, can be carried on without the expenditure of substantial funds. We concur in the growing consensus that the Federal Home Loan Banks should be more involved in this process through a combination of capital contributions and market borrowing guarantees. The Bank Board, the industry, the District Banks and the Treasury are actively working on a cooperative arrangement of this sort and we think it holds out the promise of providing an important new source of real money for real solutions.

CONCLUSION

Mr. Chairman and Members of the Subcommittee, we have passed the point where half-steps will carry the day. The suggestions we have outlined today emphasize private sector involvement and can be implemented immediately, without the need for additional legislative action. When combined with the improved interest rate environment in which all thrift institutions are now operating, we are far from convinced that FSLIC lacks sufficient reserves and future income prospects to solve its own problems.

Most importantly from the standpoint of the institutions we represent, I would like to stress that the remaining — and in our view diminishing — problems of the industry must be resolved without encumbering healthy savings banks and savings and loan associations. The bulk of the industry has made a remarkable recovery and we simply cannot be a party to any rollback in our operating powers while our competitors in the financial services market continue to move forward as, indeed, they should.

At the end of this month the final step in the six-year deregulation of deposit rate ceilings will occur. This committee was instrumental in pushing through the painful but necessary abolition of protected status for the thrift industry, and we are all fortunate that the final step is taking place at a time when interest rates are at their lowest levels in seven years. We look forward to 1986 as another very good year based on all the economic factors, and we can only hope that the political fallout from the Ohio and Maryland crisis is not directed at those thrift institutions which have prudently and responsibly responded to the challenges of financial deregulation.

APPENDIX A

Status of Banks in Net Worth Assistance Program as of December 31, 1985

Bank	Date of Entry in Net Worth Program	Status
A	12/82	1983 - certificates retired; merged into another bank
B	12/82	1984 - certificates retired; merged into another bank
C	12/82	Arranged private recapitalization
D	12/82	Second half profit
E	3/83	Second half profit
F	6/83	Full year profit
G	12/82	Merged into another bank
H	12/82	Arranged private recapitalization; full year profit
I	6/84	Full year profit
J	12/82	Full year profit
K	3/83	Full year profit
L	12/82	Second half profit
M	12/82	Second half profit
N	12/82	Arranged private capitalization
O	12/82	Fourth quarter profit; full year loss
P	12/82	10/83 merged into another bank (cerificates retained)
Q	12/83	Full year profit
R	3/83	Merged with another bank
S	12/82	Arranged private recapitalization; full year profit
T	6/83	Repaid certificates; full year profit

Bank	Date of Entry in Net Worth Program	Status
U	7/83	7/83 merged with another bank; full year profit; repaid certificates
V	3/83	Merged with another bank; certificates retained
W	6/83	Full year profit
X	3/83	Full year profit
Y	10/83	Full year profit
Z	12/84	Negative income 12/30/85
AA	12/82	Full year profit
BB	12/82	Arranged private recapitalization
CC	3/83	Full year profit
DD	6/83	8/83 certificates retired; acquired by a private company

Notes: 22 savings banks currently have received and not repaid certificates.

15 savings banks entered program since December 1982 (includes mergers).

10 savings banks left program since December 1982 (includes mergers where certificates were retained by savings bank involved in merger).

5 savings banks merged with other savings banks.

3 savings banks merged with other institutions.

Chairman **St Germain**. Thank you. Mr. Anderson, the GAO report is very interesting, and, as I think you, yourself, stated, it is based on raw data.

I would now ask you to comment on that which Mr. Janis and Mr. Albers have focused upon and, to wit, the steps that have been taken in order to improve the situation to alleviate as much as possible the number of problem institutions and to avoid problems in the future.

I refer, for instance, to the regulation on net worth growth, where they want to make sure that institutions don't grow too fast.

Also on the net worth certificates—Mr. Albers testified to the effect that, in the opinion of the National Council of Savings Institutions, the net worth certificates have proven to be of value to quite a few institutions.

How about giving us a little beyond the blue book that you commented from?

Mr. **Anderson**. Yes, sir.

Chairman **St Germain**. We have seen the blue book. The press has seen the blue book. Now let's go—as the Johnny Mercer song says, "Can we accentuate a little positive here?"

Mr. **Anderson**. I have Dr. Jillian Garcia, who headed up this particular GAO effort, formerly with the Fed, formerly on the faculty at Cal-Berkeley. I may turn to her for some help, sir, but let me try to respond to the question you just posed to me.

First, I thought that Mr. Albers made the point very properly that there are different segments out there in the industry. I would be the first to say that everything that we have seen would indicate that a number of positive steps have taken that are going to prove fruitful and help a large part of the thrift industry. There is no doubt about that at all.

I thought that the constraints on asset growth were particularly important in trying to keep the industry as a whole stable and, in the long run, more profitable.

Our concern is with that subset of institutions and I think that the Bank Board and FSLIC probably would have a better handle on their identity than we do. But I would say that there is a subset out there that all of these fruitful steps we are talking about aren't going to do much good for it. I think that right now, we are warehousing, in effect, a number of problems that we have not faced up to.

I know that Mr. Gray himself has expressed some concern about the adequacy of the fund as it exists today. I think he said the $2.7 billion, roughly, available, as of the end of 1985, and himself thought that it might be useful for the Congress at least to come forward with a statement of intent and commitment to provide whatever type of assistance is required.

So for some part of these firms, I think, inevitably, all of these good things that are being done aren't going to help.

There's another problem that I didn't speak to earlier that I want to address now—namely, that even the numbers themselves may not reflect the magnitude of the potential losses. By that I mean, I am referring to a report, the report we did last year on the financial statements of FSLIC, cited the large losses and the loss provision that had been made in connection with just three S&L's—Empire, San Marino, and Knox Federal.

It seems that when we start getting into some of these portfolios a la Continental and others, we find out that a lot of the paper isn't as good as it was purported to be.

Chairman **St Germain**. You mean Continental Illinois?

Mr. **Anderson**. Yes, sir, I am sorry. A lot of the paper is not as good——

Chairman **St Germain**. Let's not confuse an S&L with a commercial bank because Continental Illinois is a super special case.

Mr. **Anderson**. I appreciate that, sir.

Chairman **St Germain**. That is the bailout of all history.

Mr. **Anderson**. I am speaking to the problem that even with a CPA going in there and looking at the accounts, that an organization such as a thrift can still carry paper that perhaps isn't worth as much as the books says it is.

Most recently, we have Beverly Federal Savings and Loan, where the initial loss, we understand was estimated in the range of $150 million. And it now seems that the actual loss is going to be perhaps three times that.

So I am saying that one of the things in terms of weighing what the potential claims on that fund might be down the road, No. 1, we have to consider that a lot of these thrifts may, in fact, be beyond resuscitation at this point in time and No. 2, with respect to any number of them, and this relates to the significant assets——

Chairman **St Germain**. Mr. Anderson, do your No. 2 in about 10 seconds or perhaps somebody else's question because I do have another one.

Mr. **Anderson**. Let me stop right there, sir.

Chairman **St Germain**. You weren't all that responsive to my question. Maybe I can get——

Mr. **Anderson**. I'm sorry, sir.

Chairman **St Germain**. That's all right. We are going to come back to you.

Mr. **Anderson**. Thank you. [Laughter.]

Chairman **St Germain**. Mr. Albers.

Mr. **Albers**. Yes, sir.

Chairman **St Germain**. It is obvious from all the media, that one of the problems with this particular bill is the fact that there are those individuals and institutions who are a little upset about the direct investment regulation and direct investment section of H.R. 20.

Now, it has come to my attention that one of the witnesses we have had appear before us expostulated about how wonderful thrifts are, et cetera, et cetera. He was all against any tampering with the direct investment regulations in the States of California, Texas and Florida, for instance. But then it came to our attention that that gentleman's analysis and study was prepared at the behest of one Lincoln Savings and Loan in California.

Moreover, the National Council advertisements on the direct investment regulation, I am told, also, and you can correct me if I'm wrong, were paid for by the Lincoln Savings and Loan in California, also the appearance is that the entire National Council is opposed to direct investment regulations.

Now, I am proud of the fact, being from the Northeast, that the thrifts in the Northeast, particularly in New England, of course, but also in New Jersey, have, frankly, weathered the storm better than thrifts in other areas of the country. And that's because of prudent judgment. They were not trying to hit home runs all the time. They were hitting the singles and the doubles and that is why we don't have the troubles, because of the singles and the doubles.

Now, let me ask you, Mr. Albers. As I would assume the head of a well-run institution would know, a prudent institution in New Jersey, do you agree with the ad campaign put on by Lincoln Savings and Loan of California, paid for by Lincoln Savings and Loan of California, but under the mantle of your organization, on whose behalf you testified this morning?

Mr. **Albers**. Mr. Chairman, I think when the National Council takes a position on an issue, it transcends any one institution's publicity campaign.

One of the factors on direct investment——

Chairman **St Germain**. Remember, I am asking you, Mr. Albers of Provident Savings Bank of New Jersey, for your opinion on the direct investment regulation and whether you agree with the advertising campaign.

I am asking you for your opinion, not the National Council's opinion.

Mr. **Albers**. OK. My direct opinion—New Jersey has had leeway investment powers for 10 years. The New Jersey savings banks and S&L's which have utilized that power have utilized it exceptionally well.

As a matter of fact, our commissioner of banking has been in Washington on more than one occasion spelling out how well the New Jersey institutions have handled it.

The Provident Savings Bank, which, I agree with you, is a well-run institution and strong——

Chairman **St Germain**. I didn't expect you to disagree.

Mr. **Albers**. No—we, too, are utilizing some of the leeway powers in the singles and doubles manner.

So, yes, I think direct investment—it comes down to management. If you have prudent management that knows what they are doing, things work out right. If you don't have good management, it almost doesn't matter what you let them do, what you have them refrain from doing because they are going to mess up anything that you let them do, anyway.

Chairman **St Germain**. Mr. Albers, what's New Jersey's leeway cap on that?

Mr. **Albers**. It is 15 percent of new worth or 3 of assets.

Chairman **St Germain**. And what is California's cap?

Mr. **Albers**. I think it is 25.

Chairman **St Germain**. It's not 100 percent?

I don't know.

[Pause.]

Mr. **Albers**. It is 100 percent. I stand corrected.

Chairman **St Germain**. You know, I think you ought to answer the question with that in mind, sir.

Mr. **Albers**. But the Federal Home Loan Bank Board has a regulation in place that if anyone wants to go over a 10-percent limit, it must be cleared first with the Federal Home Loan Bank Board. So they have put in that kind of restriction, yes.

Chairman **St Germain**. That is the regulation that Lincoln Savings and Loan is advertising against. Correct?

Mr. **Albers**. I believe so.

Chairman **St Germain**. Yes. Now, whom do you agree with—the Federal Home Loan Bank Board or Lincoln Savings and Loan?

Mr. **Albers**. I believe I would agree with prudent use of leeway investments.

Chairman **St Germain**. As in New Jersey. Therefore, don't you find it a little difficult to agree with the 100-percent cap they have in California?

Mr. **Albers**. Do I, personally?

Chairman **St Germain**. Really?

Mr. **Albers**. Yes.

Chairman **St Germain**. You don't think that's a good idea?

Mr. **Albers**. Do I, personally?

Chairman **St Germain**. Right.

Mr. **Albers**. Yes.

Chairman **St Germain**. Yes, what?

Mr. **Albers**. Yes, I find it difficult to put 100 percent of assets in leeway investment.

Chairman **St Germain**. Thank you. Mr. Annunzio.

Mr. **Annunzio**. Thank you, Mr. Chairman.

Mr. Anderson, after listening to your testimony today and glancing through the GAO report, I am convinced that your complaint is not with the S&L's that have net worth certificates, but rather, with the Congress for authorizing them. Aren't you really saying that Congress did not know what it was doing when it authorized net worth certificates?

Mr. **Anderson**. No, sir. Far be it from me to question an action of the Congress that I think made a lot of sense at the time, Mr. Annunzio. I think at that time when we were concerned with interest rate risk, primarily, it sought to buy time, as I view it. I thought it was crafted to accomplish that and it made sense to me at the time.

GAO has looked at the operations of the net worth certificate program. We issued a report, in fact, last September that addressed what we found with respect to the use that was being made of it out there.

What we found was that it wasn't really helping too much those firms that chose to seek that particular type of assistance. We found, for example, that they tended—the firms that took advantage of the assistance tended to move more in the direction of insolvency.

We tracked 67 thrifts for which data was available over a 2-year period. I think they had all obtained net worth assistance in 1982 and 1983. Whereas, I think only 20 of them initially started off insolvent, 56 were insolvent by the end of the period.

I guess the point I am trying to make is that I thought—I speak for GAO now—the program made sense at the time it was conceived. It just hasn't been utilized nearly to the extent I think that the Congress thought when it put the program in place.

At the time we looked at it, there were 67 thrifts that we looked at. There were another 555 that were eligible, but for some reason, did not apply for the assistance.

Mr. ANNUNZIO. When Congress passed this net worth program, it did so well that the problem S&L's could bring their balance sheets up to an acceptable level. We realized at that time what we were doing was outside normal accounting practice standards.

Mr. ANDERSON. Yes, sir.

Mr. ANNUNZIO. That was made clear from the beginning. Now GAO has chosen to put a standard that Congress never intended. Why would GAO clearly and, in my opinion, in violation of congressional intent, use a different standard to judge net worth certificates?

Mr. ANDERSON. The first point I have to make is that this analysis that we are talking about was performed in response to a congressional request to revisit exactly what was happening out there.

I think that from our standpoint, what we are doing is providing the Congress with truly accurate information, more accurate information than the information provided by regulatory accounting practices as to the health of the industry.

We thought we were serving congressional purposes, Mr. Annunzio, and we would be distressed if we weren't.

Mr. ANNUNZIO. As you know by now, I strongly disagree with your statement. I am, along with the chairman of the committee, one of the authors of this net worth certificate program. We knew at the time when we were passing the net worth certificate program, if I can use the word, that it was like a gimmick to be used, you know, by these savings and loan associations.

Mr. ANDERSON. Yes, sir.

Mr. ANNUNZIO. I have to say that I disagree with your program. I think the net worth certificate program has served its purpose and it served the industry well and it served the American people well.

Mr. ANDERSON. I can't quarrel with that, sir.

Chairman ST GERMAIN. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman.

I want to follow up on Mr. Annunzio's questions. I think they are important because we are going to have to make a decision here pretty soon as to whether the net worth certificate program is to be continued.

As has been pointed out, I think by Mr. Annunzio, the net worth certificate program, which I also supported, was designed to buy time pending the return to lower interest rates. It really addressed the problem of interest rate risk at the time. Interest rates are now coming down. From that standpoint, the industry appears to be more healthy.

Mr. Janis and Mr. Albers testified that the interest rate problem has largely been replaced by asset quality problems. If that is true, is the net worth certificate program still as relevant and if so, under what conditions should it be implemented with a plan to, say, increase capital or move toward GAAP accounting?

I think I might ask Mr. Sahadi that question first.

Mr. SAHADI. Yes. We support continuation of the net worth certificate program. Let me just cite some statistics here.

In the first quarter of 1984, there were 74 institutions with 136 million dollars' worth of net worth certificates and 20 billion dollars' worth of assets. Their quarterly profit at that point was a minus $27.9 million.

If we can jump up to mid-1985, we had 110 institutions with 340 million dollars' worth of net worth certificates, 44 billion dollars' worth of assets and the quarterly profit of those institutions was $24 million.

Mr. WYLIE. Thank you. Would you care to comment on that, Mr. Janis?

Mr. JANIS. Yes, sir. I believe that the net worth certificate program needs to be looked at as part of an arsenal of tools that the regulator has to deal with these kinds of problems.

Net worth certificates alone don't solve a problem, but they are a valuable asset in solving the entire range of problems.

Now what this permits is for well-managed institutions to escape unnecessary insolvencies and that's crucial because that's going to avoid disruptions and increased financial expenses to the FSLIC.

Now it also enables FSLIC and the FDIC to devote more staff attention to the truly serious problems. And I think for those reasons, the net worth certificate program should be extended and made permanent.

Mr. WYLIE. Thank you. Mr. Albers, I saw you shaking your head affirmatively.

Mr. ALBERS. I would tend to agree with that. The problem I had today in reviewing the GAO statistics is it's really a snapshot. It gives you a picture and you can argue with some of the figures and so forth and so on, but it's a snapshot.

The solution for FSLIC is not an instantaneous one. They have put in several new approaches. The 406 Corporation, our group would like that modified and so forth, but the 406 corporation is now in place and just starting to function.

In California, they have taken a new approach with a defunct savings and loan, putting in the "good assets" in one place, the bad assets in another, and sell the good assets for a premium.

In theory, this sounds very, very good. Maybe this approach will work. Time, I think, is an ally of FSLIC. If the other recommendations that the National Council has made already, the U.S. League will be making next week—various particular actions that we would like to see FSLIC take in cooperation with the industry to help solve their problem.

So the net worth certificates, I think, are highly valuable. They buy the necessary time. Many of the institutions using them, as I indicated in my testimony, have come through magnificently well. It was exactly what you were hoping would happen.

The net worth certificate, I think, is very important as one tool of many, many of which are new tools, that will help FSLIC.

Mr. WYLIE. You mentioned net worth certificates, the 406 Corporation. If I have time, I want to see how that's working out. I noticed some press reports that you were asking the 12 Federal home loan banks to participate and provide some assets. But I would like to ask a question with reference to what Mr. Gould had to say yesterday while you are all here.

Our job would certainly be a lot easier if we could develop a consensus among the depository institutions. But even beyond that, if we could develop a consensus within the administration, within the depository institution. But even beyond that, if we could develop a consensus within the administration.

But Mr. Gould suggested that the creation of consumer banks might, in fact, help the thrift industry because these consumer banks would have the potential of acquiring thrifts, thus bringing new capital into your industry.

Would you have a comment on that, Mr. Janis? Or Mr. Albers?

Mr. **Albers**. I will start.

Mr. **Wylie**. Do you want to start first?

Mr. **Albers**. The National Council basic philosophy is for free competition. We have never come to Congress or to a regulator asking that powers be competitors be restricted. What we have consistently asked for, including this morning, is that free competition be encouraged, that the healthy institutions be allowed to compete with whoever else is out in the marketplace. We won't get into that this morning unless you want to.

Now, with that as a background of general philosophy, we would not be opposed to consumer banks. We have never come and argued against a competitor in power.

Could they be an asset as new buyers of failing thrifts? I think they could be. Again, it would take some regulatory changes, but I think the bottom-line answer is, yes, they could be.

Mr. **Wylie**. Mr. Janis.

Mr. **Janis**. I think the first thing that needs to be done, sir, is to close the nonbank bank loophole. I think that's important because the major priority that I see is FSLIC in this context.

Mr. **Wylie**. Well, that would exclude the consumer bank concept, though.

Mr. **Janis**. It seems to me that the consumer bank concept is destabilizing and the U.S. League would be opposed to it.

Now, as to the rest of what you said about helping outside institutions coming in and taking over troubled FSLIC cases, I think it would be fair to say that the U.S. League is in favor of institutions, generally nonfinancial institutions, coming in and providing capital. And we have no objection in that regard. Our objection, however, and the question we raise would be with regard to two specific kinds of outside institutions. One would be securities firms and the other would be major national retailers.

On the securities firms, our concern there is the Glass-Steagall problem, which I could detail if you wished. With regard to the major national retailers, the problem that I see has to do with the cost-benefit. You are not going to get that many major national retailers to take over that many S&Ls and the competitive disadvantages certainly outweigh whatever narrow benefits there may be.

Mr. **Wylie**. Well, we may want to explore that further.

Thank you, Mr. Chairman.

Chairman **St Germain**. Mr. Barnard.

Mr. **Barnard.** Thank you, Mr. Chairman.

Mr. Anderson, as you know, I have a high esteem for the General Accounting Office. You always do an outstanding job. And in this report that was prepared, I think you did another very outstanding job.

Mr. **Anderson.** Thank you.

Mr. **Barnard.** I think you have very fairly identified some problems in the thrift industry. But I think it's a half-study. You really didn't go into the strengths of the FSLIC fund and the other available resources that the FSLIC has.

Now, Mr. Janis, in your comments, you indicated that, yes, the depository system is strained, but you said it was manageable, there was improvement, and we may be going for the wrong solutions.

Maybe either you or Mr. Anderson, but because of your previous responsibilities and opportunities in government, maybe you would like to help go through some of these other resources within the FSLIC.

When you see these losses as projected by the GAO, you, first of all, compare that to what? You compare that to the present reserves of the FSLIC. But that's not the total story. You've got the primary reserve, which was $5,852,000,000 in July—I am referring, Mr. Chairman, to Peter Stern's testimony before our committee on September 12, 1985.

In that, he was reporting on the condition of the FSLIC. $5,852,000,000 reserve, $754 million in secondary reserve, $688,856 million on the estimated annual income from regular premiums. I could go on and on.

Eight billion dollars in estimated size of the 1 percent deposit, as of July 31, 1985. $750 million FSLIC line of credit from the U.S. Treasury. And $4 billion, Federal Home Loan Bank Board's credit of the U.S. Treasury.

Doesn't the fact that these reserves were not included in your report grossly distort the condition of the savings and loans?

Mr. **Anderson.** What you have identified very accurately, obviously, Mr. Barnard, are alternative ways that FSLIC could seek additional funds in the event that it needed them. Some might quarrel with the desirability or feasibility of certain of the approaches. I can't contest that for a second.

As to whether even the sum of all of those resources, the particular ones, tapping the home loan banks, even the special assessment and the problems that people like Mr. Albers have with that indiscriminately going across the board. But even then, there are scenarios that you could envision that they would all fall short.

I can only refer back to Mr. Gray's testimony where he believes that something that the Congress needs to do is to go beyond all of that and still give a statement of intent to support FSLIC to whatever extent is required.

We didn't feel that we were omitting important information. I'm glad you brought it—obviously, I'm glad it came out in testimony here.

Mr. **Barnard.** Mr. Janis, would you respond to this?

Mr. **Janis.** Yes, sir. You have got two things going, it seems to me. One is some stretchout issues such as the 406 Corporation and the management consignment program. These defer losses to FSLIC. And then you've got some positive things that you can do on the capitalization side of FSLIC relative to tapping the Federal Home Loan Bank System and the special assessment, although I believe the assessment can be phased out now over time. But they are in place at the moment.

The problem, as I see it, is that if you do the things that I have talked about, which are the stretchout and proving the financial assistance, I believe you can meet the problem.

Now if you look at the GAO numbers on the other side, I suppose one could argue that you can't. I think you can, however.

The problem is that the GAO has seriously overstated the problem. I find their report an old report—it's stale. The date is stale by 8 months, and in a rapidly changing environment, this is crucial, this timing question.

But the GAO report, it seems to me, relies on a very simple formulation. It takes the negative net worth of institutions on a GAAP basis and multiplies that by the resolution factor and says that's the exposure of FSLIC.

Now, it's ridiculous, in my judgment, to use GAAP for the purposes that they've used it for because what it is, after all, on a commonsense basis that the public cares about?

The public concern is, will the institution where I bank be closed down? And second, will I lose any money if it is?

Now the answer to that first question about whether it's closed down is not a GAAP question, it's a RAP question, because that's the question of how far an institution is from its regulator's standards. That's what's crucial.

The answer to the second question is obvious. They won't lose any money because of the value of deposit insurance.

The GAO makes a further point, and just let me finish with this, and that is that the commercial banks don't use RAP accounting, that they use GAAP.

That's just wrong, just plain wrong, and it's the basis for their justification for why they've used a GAAP formula to derive the exposure to FSLIC.

I find that a very serious fault. That's why these numbers will never come together.

Chairman St Germain. Mr. Manton.

Mr. Barnard. Mr. Chairman, just a second. What I am saying, I am not trying to say we shouldn't do nothing because of these others. I am saying that we need to do something, but I think we need to set the record straight, that the American public needs not to be panicky that tomorrow we are going to have a run on all the savings and loans in the country.

Chairman St Germain. Mr. Manton.

Mr. Manton. Thank you, Mr. Chairman.

Mr. Annunzio. Will the gentleman yield for a minute?

Mr. Manton. Yes, sir.

Mr. Annunzio. I appreciate your yielding. Mr. Barnard has just made the point that I was going to make about when you issue a report, the panic that can be spread.

Is there something in the rules of the GAO that when you make a study like this, why don't you people consult with the leaders of the industry, like the U.S. Savings and Loan League, the National League in making this kind of a report? I mean, they are the experts. They run this business in this country.

Mr. **Anderson**. In the normal course of GAO work, sir, we do speak to people that can speak with authority on whatever the subject that what we address is.

Now, I don't believe we need to apologize for this piece of work. I think it's an accurate piece of work. I think it serves congressional purposes to have the information that it contains.

I certainly take exception to some of the things that Mr. Janis said about, No. 1, we have never asserted that commercial banks aren't subject to regulatory accounting. Indeed, they are.

Mr. **Annunzio**. Mr. Anderson, it's not my time.

Mr. **Anderson**. I am sorry, sir.

Mr. **Annunzio**. I must point to you that this industry has been in bad shape. And finally, in 1985, they have begun to see some daylight. Things are getting better. What we want to do is to make sure that we don't disrupt the trend.

It is going up. They are making money and they are making a profit and confidence is being restored in this industry. And I don't think that the Members of the Congress and the Government should add——

Mr. **Anderson**. Your point's well taken, sir. It's a real dilemma for GAO. In fact, we have withheld reports in the past on that very basis after consultation with the committee.

Mr. **Annunzio**. And I want to thank my distinguished colleague for giving me the time.

Mr. **Manton**. You're quite welcome, sir.

I have a couple of questions for Mr. Albers. You mentioned the favorable economic outlook for healthy thrift industry in terms of interest rates and other economic factors. Are there any negatives out there that we ought to be concerned about?

Mr. **Albers**. I guess aside from the obvious negative of budget deficits, et cetera, the biggest problem threatening our industry is the move to reregulation. I think a lot of the new powers are starting to be put in place, 85 to 90 percent of the industry, are using the powers very prudently and are starting to establish a full earnings base in order to be a little more diversified and not quite as subject to the vicissitudes of one particular market.

So I would think that one of the major things facing us is the possibility, the mood in the country, that deregulation somehow or another has caused the problem. It has not caused the problems, but I'm afraid it might be the whipping boy.

Mr. **Manton**. On page 8 of your prepared statement, you mentioned some across-the-board remedies to the S&L crisis that have caused problems for healthy thrift institutions. Could you give us an example of what you had in mind?

Mr. **Albers**. Well, for instance, a lot of the very weak institutions are the ones who pay the highest interest rates in an area. And the general public is very conscious of the insurance factor and if bank A is paying higher than bank B, they are very satisfied with that and will go to bank A.

The other thing is, and I was referring to this in the baseball analogy, I guess, many times, when you are behind in the game or whatever, you are forced to take some chances that you would not otherwise take.

So, again, some of the problems that have been talked about today I think are an effort by some managers to recoup and get earnings above and beyond the industry average, which gets them into some unsafe and unsound practices in terms of loans.

Mr. MANTON. Strikeouts.

Mr. ALBERS. Yes.

Mr. MANTON. On page 11, you talk about a broader list of eligible acquirers.

Do you think that change could make a meaningful difference in handling problem cases?

Mr. ALBERS. Yes. There is obviously a problem here and the problem will go on for a number of years, in my opinion. If you permit only 10 buyers to bid on anything, the price level will reach a certain quantity. If you permit 100 people to bid on it and they are all interested in whatever it is you have for sale, it would appear to me that that bidding process would raise the price. So we think opening it up and letting any qualified, legitimate business with good net worth bid, will, in fact, help FSLIC, yes.

Mr. MANTON. Thank you, Mr. Albers.

Mr. ALBERS. Thank you.

Mr. MANTON. That's it, Mr. Chairman.

Chairman ST GERMAIN. Will the gentleman yield?

Mr. MANTON. Yes, Mr. Chairman.

Chairman ST GERMAIN. I would like Mr. Albers, in view of what he just said, to clear something up for me.

Recently, there was a purchase of a financial institution, Park Bank, in Florida, by Chase Manhattan. The information I received from FDIC was that there were only three or four bidders, three of them from out of State, one within the State.

Now, if we were to follow your philosophy, why were there so few bidders in that instance, do you suppose? I mean, in Florida, obviously, it's a great market to get into.

Mr. ALBERS. I can't answer you specifically since I do not know that particular situation.

Chairman ST GERMAIN. I am trying to understand. When you say, if you increase the number of eligible bidders, you will have more than 10 bidders, the price will go up—that sounds good——

Mr. ALBERS. Yes.

Chairman ST GERMAIN [continuing]. As a statement. But then, in practice, it doesn't seem to be happening.

Mr. ALBERS. But in the real world, an awful lot of people have bid on institutions in Florida and are currently operating in Florida. I can name a couple of New Jersey institutions that have many branches there.

Chairman ST GERMAIN. That still doesn't back up your statement because that means, once *x* number of institutions are in that, they don't want them. And Florida—frankly, a lot of institutions, I am told, still want to get into Florida and it's supposed to be the growth area in banking in this country.

Mr. ALBERS. Yes. What we are saying is it should be opened up to people who are not permitted to bid at this time.

Mr. BARNARD. Will the gentleman yield?

Mr. **Manton**. Yes, sir.

Mr. **Barnard**. Mr. Albers, isn't that because of the fact that the Garn-St Germain bill is limited to failing institutions as opposed to weak institutions?

In other words, there would be more bidders to alleviate this problem if that change was made so that the Federal Home Loan Bank Board could make eligible for purchase under the Garn-St Germain bill savings and loans which have not been declared failed, but just weak.

Mr. **Albers**. Yes, sir, or let them go in tandem, as they sometimes now do, a good one and a defunct one. Yes, anything to enhance the attractiveness would be helpful.

Chairman **St Germain**. Mr. Leach.

Mr. **Leach**. Well, Mr. Anderson, it is hard not to be impressed and somewhat worried by the statistics that you have laid out.

Would your report have been more worrisome if it had been issued let's say at the end of 1982 than based on statistics in June 1985?

Mr. **Anderson**. I am sorry, sir. I'm not sure I understood——

Mr. **Leach**. My question is would it have been a more worrisome set of conclusions say at the end of 1982 than the middle of 1985?

Mr. **Anderson**. Yes, sir. In 1982, citing the numbers that I used earlier, 74 percent of all thrifts showed——

Mr. **Leach**. Were losing money.

Mr. **Anderson** [continuing]. Were losing money.

Mr. **Leach**. I just wanted to get that relationship. Is it a better situation as of March 1, 1986, versus June 1985?

And the reason I stress this, again, is not only have portfolios spun into the positive net worth stage, which they haven't been for a number of years, but it looks like interest rates are continuing to decline. And if you look at your statistics, with 40 percent of assets of a typical S&L in fixed-rate mortgages, don't they show a much improved situation today than 8 months ago when your conclusions were derived?

Mr. **Anderson**. I would say that absolutely, that the health of the industry, a large part of the industry is good and getting better. That is what I would draw from that information, sir.

Mr. **Leach**. Fair enough. On the other hand, to look at it more skeptically, Mr. Janis, you noted that in 1984 and 1985, the liability base of the thrift industry grew 28 percent on the base over 1983.

Can you tell us, what was the money supply growth for those 2 years?

Mr. **Janis**. I don't have the money supply growth in my head, sir. We can certainly submit it for the record.

Mr. **Leach**. Well, wouldn't it be about 60 percent of that figure? And so in the last 2 years, basically, the liability base of the thrift industry grew almost twice as fast as the money supply growth.

And the reason I raise that is that I think if there's any scandal in the S&L industry, it's analogous to the scandal in the banking industry. In the 1970's, we had a scandal where the regulators let the large banks grow too fast abroad. And it looks like in the late 1970's and 1980's, the regulators let the S&L industry grow a little bit too fast.

That brings me back to what you do about it. I personally think this committee ought to be commending Ed Gray's effort, not only to shore up the FSLIC, but I think, more importantly, to shore up the thrifts through demanding a stronger capital base.

I mean, the greatest private sector bailout is through shoring up the capital base.

And so the question really is, Now that interest rates have declined, now that thrifts can tap Wall Street or use other techniques of raising money, isn't this the time to raise capital, therefore, making the net worth certificate issue less of an important tool?

Can you take care of yourselves?

Mr. JANIS. Yes and no, I believe, sir. Yes, it is the time to raise capital and healthy institutions can raise capital. The market has never been better for that. The U.S. League would support additions to capital by those institutions that can raise it in the public markets and in the private placement market, for that matter.

As a matter of fact, look at Euro-convertible issues right now: that window is open. It's never been opened before. It's just been opened in the last 3 or 4 weeks. It's tremendous.

The no part of the answer is that the kinds of institutions that we are talking about that would be eligible for net worth certificates I don't believe can raise capital either in the public or the private market.

Mr. LEACH. Well, let me go farther. You made a very strong case, that we have to be very careful about keeping the S&L industry as a special industry because of its high percentage of mortgage loans.

Yet, in California, you have been granted powers that some of us think are rather spectacular, that go way beyond traditional S&L powers or powers in the savings bank industry.

And therefore, it strikes me that on the one hand, maybe the regulators should ask the stronger S&L's to make sure their capital base gets stronger, and on the other hand, should make it clear that where institutions try to hit home runs, that their assessments for the FSLIC fund should be increased. And that if you are going to be treated as a special industry, then the specially strong might have to foot a little bit of the burden for the specially weak.

And I would stress that the alternative is the taxpayer.

Now I sympathize with the prudent, well-run S&L in this regard. But you ought to make sure that your stronger institutions take care of your weaker institutions, or that you come to this Congress for techniques of closing or merging the weak institutions.

I personally think that when an S&L gets into a negative capital position, the issue ought to be how you send it out of business, not how you try to keep extending it, therefore allowing it to compete with the better run S&L's, as well as the other sectors of the financial industry.

Would you differ with that or not?

Mr. JANIS. Well, it seems to me, sir, that the situation in California with virtually unlimited powers—I forget the word you used, spectacular, or something like that——

Mr. LEACH. Yes.

Mr. JANIS. I would say it was reprehensible and scandalous——

Mr. MCKINNEY. (Rap, rap, rap.)

Mr. **Janis** [continuing]. What happened in California with regard to those powers. Now——

Mr. **Leach**. I share the instincts of my colleague from Connecticut. [Laughter.]

Mr. **Janis**. In my judgment, however, it was not the traditional S&L industry in that State that lobbied for that. It was a series of events having to do with California politics, not having to do with the savings and loan industry.

Now as to the question of the healthy savings and loans paying for the weak ones, aside from the inequity of that, as a matter of fact, the healthy S&L's have been paying and they have been paying through the nose for the last several years, and the special assessment is a good example.

I know of specific instances where I have done comparisons where healthy S&L's that I am aware of are paying three to four times, in terms of their insurance premium, what commercial banks in the same State of the same size are paying. So S&L's, healthy ones, have been paying. In my judgment, they have overpaid.

Mr. **Leach**. I wouldn't differ with that. My time is expired.

I would only just stress that maybe the issue is to hold accountable these weaker institutions and in an orderly way get them out of the marketplace when they develop negative capital bases. That could come through the FSLIC. It could come through many other techniques as well.

Mr. **Janis**. If you are talking about tougher supervision, I certainly agree with you. If you are talking about immediate solution of problems, I would sometimes agree with you and sometimes I would advocate a stretchout, a solution like an MCP, depending upon the nature of the institution.

Mr. **Leach**. But if they can't make it when all the trends are doing well, then the question is, Will they be in even a worse situation if things turn against them?

Chairman **St Germain**. Mr. Cooper.

Mr. **Cooper**. First, I would like to ask Mr. Anderson, he was shaking his head in response to a question up on the upper deck there about the difference in GAAP and RAP accounting.

I believe the point was made by Mr. Janis that banks, of course, didn't really use GAAP accounting. Mr. Anderson was kind of shaking his head. Could we continue that discussion for a short time?

Mr. **Anderson**. Yes, sir. What Mr. Janis said was that I incorrectly, that we, GAO, incorrectly said that banks were not subject to RAP, and indeed, they are, their own particular variety of RAP, you know, as promulgated by the bank regulatory agencies.

That was the point that I was trying to make.

Their regulatory accounting practices differ somewhat from those of the thrift industry. They tend to be more conservative and closer to GAAP. I think their treatment of goodwill, although goodwill in the banking industry is not nearly as significant an item as it is in the thrift industry. Some small number, some small fraction of those banks do have it.

I think the important thing that we want to convey in this whole RAP versus GAAP issue goes back to table 2 on page 14 of the report that we gave you. I would like to just one more time highlight some of the numbers in there.

I think most significantly—let's take 1981, the first half, as an example.

In 1981, using RAP principles, you had 4.95 percent net worth. Under GAAP, 5.06 percent. Very close, even more under GAAP, and over under tangible net worth, 5.02 percent.

Now, if I take it up to the second quarter in 1985, my RAP net worth is 4.19 percent, not so different, seemingly, from that 1981 issue. However, it's a totally different animal because that 1981 net worth had virtually no goodwill in it. It had earning assets. It largely was based on a calculation from a group of earning assets. That is the difference.

When I reach over to the right there and I see that my 5.02 percent, 1981, tangible net worth, has dwindled down to 0.73 percent and that 0.73 was arrived at merely by eliminating goodwill from GAAP, I get a better feel of what that 4.19 percent net worth really means.

Now this also applies to individual thrifts as well and the picture that they present. The numbers that we present here, even the GAAP numbers, are based on, and recognizing the inclusion of goodwill, this important element of goodwill in their statements.

Mr. COOPER. If I could ask Mr. Janis the next question. I believe yesterday, George Gould, Under Secretary of Finance for the Treasury, recommended that the Federal Home Loan Bank Board should continue its effort to phase out RAP accounting. I assume you would be opposed to that effort.

Mr. JANIS. No, not necessarily. I could see some long-term phasing of RAP accounting into GAAP. If it's done properly and if it's done prudently, I would not object to that.

Mr. COOPER. Is long term 5 years, 10 years?

Mr. JANIS. I would hate to put a number on it, but certainly no less than 5 years.

Mr. COOPER. Finally, I would like to ask, since you characterized the California statute as, I believe, reprehensible and scandalous, or something to that effect——

Mr. JANIS. That's a personal opinion, by the way. I am not sure that I am talking for the U.S. League when I use terms like that. I would like to clarify that.

Mr. COOPER. Has your institution taken advantage of the leeway of the California law?

Mr. JANIS. I would have to do some calculations. The institution of which I am the chairman of the executive committee is a State-chartered institution, however, I don't believe we would be over, say a 10-percent limit, which would be a limit in many of the other States. In the case of my institution, the direct investments or these kinds of authorities do not exceed what is normal for other State-chartered institutions.

Mr. COOPER. If that is so, I congratulate you. Many institutions try to take advantage of those reprehensible and scandalous initiatives at the same time they are denouncing them.

Mr. JANIS. Sir, let me just clarify that. What happened was, when that statute went into effect in California on January 1, 1983, this made the California charter the most valuable piece of paper imaginable any place in the world for a financial institution. And a lot of people came into the industry who I would have to call fast-buck, high-flyer, suede-shoe type of people. [Laughter.]

Now these are the kind of people that have gotten the industry into trouble. This is what the press has been reporting on. It's one small segment of the industry. But this is what started the problem.

Mr. COOPER. Is there any self-regulatory effort within the U.S. League to try to reign in some of this activity?

Mr. JANIS. Well, the U.S. League Task Force which has been addressing this, is going to come out with a report in about a week. I can't discuss that because it hasn't been approved by the membership at this time. But, certainly, I think it would be fair to say that the trade association, the U.S. League, is generally in support of tougher and more stringent supervision and examination.

Mr. COOPER. Would you characterize a 3-year delay as a timely report?

Mr. JANIS. Three-year delay of what, sir?

Mr. COOPER. Of the report that's coming out on the California activities? Isn't the horse already out of the barn?

Mr. JANIS. I don't understand what you are talking about.

Mr. COOPER. If the California law was enacted on January 1, 1983, it went into effect then. Now it's 1986.

Mr. JANIS. Oh, no, I am not being clear, apparently.

The law that went into effect on January 1, 1983, resulted in certain things that took place over the next 2 or 3 years. Nobody could have determined in advance what that would have been. Maybe a few long-sighted people could see that this was dangerous.

What has happened was that this has helped to put the strain on FSLIC. This has created the so-called asset-type problem. This has caused other States to liberalize their powers with regard to direct investment and this kind of thing.

Over the period of time, this has put the strain on the FSLIC and the other depository institutions, you see.

So it is a working out.

No, I don't think the report is delayed at all. I think FSLIC is in relatively good shape. The reserves of FSLIC are high and the unobligated balances actually grew last year.

Mr. COOPER. Thank you, Mr. Chairman. My time is expired.

Chairman ST GERMAIN. Mr. Kanjorski.

Mr. KANJORSKI. Mr. Anderson, I would like to bring you into the discussion on some of the comments that Mr. Albers made.

The provisions in title I of the Garn-St Germain Act allow emergency acquisitions of troubled thrifts by out-of-State thrifts and even commercial banks. Title I also sets a hierarchy which gives acquisition priority to institutions of the same type and in-State institutions.

These emergency acquisition authorities, like the net worth certificates program, are due to expire on April 15. Some people claim that the cost to the FSLIC and the FDIC insurance funds could be substantially reduced if the priority given to the existing law to in-State and same-type institutions was eliminated.

Has the GAO analyzed this proposition? Have you quantified or could you quantify the effect on the insurance funds? If the priority system is to be eliminated, we in the Congress will have to decide whether it is good public policy to allow easier cross-industry or interstate acquisitions. But if we are going to make such a major change in public policy, we should at least know how much it will benefit the insurance funds.

Have you made that analysis, sir?

Mr. **Anderson**. Sir, I regret to say that we have not studied the issues. Obviously, we think strongly that anything that would improve the marketability of these sick thrifts has got to be to the advantage of FSLIC. But the thing that the Congress is going to have to be concerned with on each such move is the downside, nonbank banks, for example. Obviously, if you eliminate those, you increase the marketability of sick S&L's as a way to penetrate the market.

But, on the other hand, without having really explored, as we in GAO haven't, and I haven't really seen laid out clearly in any one place, a thorough examination of the downside of a move like that, and it would apply to this equally as well. We in GAO have not studied it.

Mr. **Kanjorski**. Do you think it would be worthwhile to start an examination of the benefit to the insurance funds now so that if that question arises in the future we know what the impact would be?

Mr. **Anderson**. It would seem to be prudent, sir, to look ahead.

Mr. **Kanjorski**. How long would that take you?

Mr. **Anderson**. I am sorry, I am getting some help from the peanut gallery here. I am sorry, sir. I don't feel confident to respond to that.

Mr. **Kanjorski**. Have you made a study as to what penetration has occurred across the United States as a result of the rescue efforts of the large commercial banks? Has this been a window that's been opened and has it been unduly used to penetrate the market?

Mr. **Anderson**. We have not studied that issue, sir. I am sorry. Maybe some of the other gentlemen can speak to it.

Mr. **Kanjorski**. Has anybody made a study of that issue?

Mr. **Janis**. Would you repeat it, sir?

Mr. **Kanjorski**. The window that has been opened in penetration of the large institutions has spread out across the country in interstate banking using the rescue vehicle.

Do you know what type of a rescue has been operated and how many markets have been penetrated and to how substantial this has been as a vehicle?

Mr. **Janis**. I don't have that data, but I know that, oh, probably six or seven California associations have gone out of State, to Florida, and to other States across the country, such as the State of Washington.

I don't have any statistical information on that.

Mr. **Albers**. I also don't have any statistical data, but Citicorp is in California, they are in Florida, and I believe, a few other States. So they have taken advantage of it. Chase's name came up today.

So, yes, some of the commercial banks have been taking advantage of it. Unfortunately, I can't answer your question as to how extensive that has been.

Mr. Kanjorski. I assume there haven't been any intentional, going from the weak to the insolvent, in order to allow this to occur.

Mr. Albers. You mean when the commercial bank comes in?

Mr. Kanjorski. Yes.

Mr. Albers. No, they apparently have done reasonably well from their published information.

Mr. Kanjorski. Now you mentioned two exceptions. I understand your exception on the securities interest that you may see a conflict in the law there.

What do you have against these massive retailers, to allow them a free shot at the market?

Mr. Janis. Well, first of all, I know the Federal Reserve has some problem regarding the payment system. But forgetting the Federal Reserve for the moment, the problem that I see is that the cost benefit just isn't there.

The issue here is whether major retailers should be allowed to come in and take over S&L's. Well, I think it ought to be looked at very carefully.

How many major retailers are we talking about and how many S&L's could be helped by such a change of policy by the Bank Board?

I think it's very few.

On the other hand, the downside would be the competitiveness of those large, major retailers in the particular market in which they came in in order to help that S&L.

Now what you might find is for a particular S&L, there would be a small saving to FSLIC right off the bat, but, on the other hand, the competitive pressure of the major retailers on that particular market place might endanger a larger number of S&L's within that catchment area and therefore, the hit to FSLIC over time could be worse.

It's a simple cost-benefit type analysis.

Mr. Kanjorski. That would be peculiar to the major retailer as compared to a large bank like Citicorp.

Mr. Janis. Yes. I don't think the competitive pressures there are the same because the banking statutes limit what they can do and major national retailers have a whole vertical type of integration that they can do all up and down the line of consumer activities.

Mr. Kanjorski. Thank you, Mr. Chairman. I see my time has expired.

Chairman St Germain. Mr. McKinney you have been to the Canadian Parliament, obviously, I see, what with your pounding on the desk. I mean, that's what they do up there. [Laughter.]

Mr. McKinney. Well, happiness is hearing California's banking law criticized. I was delighted by my good friend, Jay Janis, saying that I was perspicacious because when that law was passed, I thought it was an abortion and it's proven to be worse than that. But that's neither here nor there.

I have to say, Mr. Chairman, as a retailer, for many years with a national franchise, that goodwill is smoke, fog and mirrors that desperate people use to give themselves value.

You can be the best Lincoln-Mercury dealer or the best Firestone dealer, in the world as I was, and if the darn cars don't sell, nobody cares if you give away babies at the gate.

Goodwill was used to make something that was worth nothing worth something, and let's leave it there. Certainly the most subjective discussion in the sale of any business, is what is our goodwill factor? And it really makes very little difference how many little league baseball teams one supports and how much one gives to the local United Fund.

I want to ask a whole pile of questions here and I can't take a lot of time because the gavel will fall on me. I'm sure you don't have the answers right off the top of your head but I would like to have them as soon as possible.

Of the 52 percent that Mr. Albers or Mr. Janis mentioned that were in home mortgages, I would like to know what percentage nowadays goes into the secondary market within a period of the first 6 months, or year, whatever other figure you would like to include. But I think we have to give it at least 6 months.

There have been several discussions about closing the nonbank bank loophole while at the same time people have been suggesting that banks be salable to any responsible corporation with good net assets.

So, on one hand, in my opinion, Mr. Chairman, we are having suggested that we close the nonbank banks, but we open the nonthrift thrifts because no retailer in his right mind is going to use the thrift, regardless of its present asset value, in any different way than the Florida, California, and Texas real estate people.

By that I mean developers. I will save my poor broker friends for the moment.

I would like to know a fact that I don't think anybody does know, although Mr. Anderson is here and he might know. I would like to know the percentage of profits made on direct investment in that glorious State out there, as opposed to the percentage of profits made doing what we told people to do—be banks or thrifts.

Chairman St Germain. You should ask about the losses as well.

Mr. McKinney. Well, yes, the losses will follow, I think.

Chairman St Germain. You know, we file profits on our disclosure statements. We never file losses. You have to obtain both.

Mr. McKinney. Well, let's have the percentage of losses, too. I have a friend that's divesting a few of these institution's assets for the Federal Home Loan Bank Board. I have to say, Mr. Chairman, although Chairman Gray has at times overstated the problem, I think he has been a voice crying in the wilderness for many years and I applaud him for it, despite the White House and despite everything else, he still continues to cry at times. There is one person in the Congress of the United States that listens.

I really am interested, though, in the losses and the percentage of profits in direct investment because the small exposure I have had shows me that they are disaster when they get too high.

In New Jersey, Mr. Albers tells us we are 15 percent. In Connecticut, I believe we are 10 percent.

Mr. Anderson. Sir, if I can interrupt, I am informed by my staff that we can provide you some numbers on that and we shall put them into the record.

Mr. McKinney. Since you can't provide them now, I ask unanimous consent that they be inserted in the record once they are available, Mr. Chairman.

Chairman St Germain. Is there any objection?

[No response.]

Chairman St Germain. The Chair hears none.

[The General Accounting Office advises they will not be able to provide this information.]

Mr. McKinney. Thank you very much. That is it, Mr. Chairman. Would any of you like to comment on my general observations?

Jay, what is your estimate, and that is not an official governmental employee's recommendation any more. You are free of all that nonsense.

What do you think? You know, it is very interesting and just the way I told you it would happen.

We had one of the money center banks appear and testify that they wanted to go into the casualty business. And I remember a corporation of ITT bleeding to death over something called the Hartford Casualty Insurance business, and I really don't see where there's much money to be made in this.

Mr. Janis. Well, my general comment is, and certainly, I don't have specific numbers at this time, that direct investment can be a useful tool if it's properly managed and properly handled by well-capitalized institutions that know what they are doing.

On the other hand, it speaks for itself.

Mr. McKinney. Or limited, a percentage of your business by legislators that don't know what they are doing.

Mr. Janis. Yes. Well, I think that the Bank Board's 10 percent limit is a fair one and an accurate one. I think it is about as close as we can come in kind of a muddy world. I think the 100 percent in California is ridiculous, as I have said. I think 20 percent that I have seen in some States is too high.

I think the 10 percent by the Bank Board sounds to me intuitively about in the right ballpark.

Mr. Anderson. Mr. McKinney, if I can make one point with respect to direct investment. The problem has been that you can't get more bankrupt than bankrupt. A lot of people have just kept moving out. Those are the type of people that tended to abuse, I think, these special powers, taking the flyers.

Mr. McKinney. You cannot. You are quite right, sir.

Thank you very much, Mr. Chairman.

Chairman St Germain. The Chair might observe to the gentleman from Connecticut: The gentleman from Connecticut had the Chair a little confused in his initial questioning because he referred to abortions and babies at the gates. I thought we were in a "right to life" hearing for a few minutes. [Laughter.]

Mr. Roemer.

Mr. Roemer. Thank you, Mr. Chairman. Just a couple of quick questions.

I am interested in where you all agree that we have a problem, and I appreciate your honesty. There's some disagreement as to how large a problem. But going through the numbers that you gave, Mr. Anderson, about 40 percent of all the S&L's in America are either insolvent or have less than a 3-percent rate.

Am I correct in that?

Mr. ANDERSON. That is correct, sir; 1,294 out of 3,180.

Mr. ROEMER. One of the gentlemen said that we have got generally two kinds of S&L's—those who will make it and those who won't. The inference was that one was much smaller in number than the other. They are uncomfortably equal—60/40 right now.

I wonder if you have done, any of you, any analysis over what was different in those who will make it and those who won't.

Was it an accident of geography? Was it the quality of management? Was it the effect of deregulation? I mean, these currents swirl across our country, yet S&L's have fallen out in two distinct patterns—60/40, those who will make it and those who probably won't.

Can we profit or learn anything from the difference between the two? And I have a specific question that relates to mortgage financing.

It has been said, and I think rightfully and proudfully so, that S&L's I think supplied last year 52 percent of mortgage values.

Is there any difference between these two categories of S&L's in the percentage of their mortgage supplying? Is that a factor to look at? Is there any handle as to why there's a difference?

Yes, sir.

Mr. JANIS. Let me start off by saying that I strongly disagree with the number of 40 percent that won't make it. This is not, I believe, what the GAO meant to say and I wouldn't want it reported incorrectly.

Mr. ROEMER. Right. Well, specifically, for the record, it's about 15 percent dead and another 25 percent bleeding badly.

Mr. JANIS. Well, but even the bleeding badly is misleading because that's based on GAAP.

Now let me make this point and it is a very crucial point. A lot of mutual associations have taken advantage of something called the deferral of loan loss to restructure their portfolios. Now they are allowed to do that under RAP and not get charged for it, in effect, but under GAAP, they do get charged for it. But they did it as a way of strejgthening themselves and strengthening FSLIC.

The result is their RAP net worth is high, their GAAP net worth is low, and would fall into that category you might call that 25 percent which you said was bleeding.

In fact, just the opposite. By virtue of using this loan loss deferral to restructure the portfolio, that means of getting rid of some of those old, low-yielding fixed-rate type loans and restructuring into ARM-type of loans on a current basis, they have strengthened their institutions and reduced the exposure of FSLIC.

So I very seriously question whether it's proper to say that 25 percent are bleeding.

Mr. ROEMER. Well, and your point's well made, Mr. Janis. I'm not qualified, nor intelligent enough, to debate you on whether the percentage of death and near-death adds up to 40, 33.6, 28.5. But whatever the numbers are, it's too high. You and I agree to that. It's a large number.

That's not really my question.

My question is, Is there a reason why it's as large as it is that we can learn from, a mistake that we can avoid the next time? Can we be specific about your experiences of analyzing the situation? Can we profit from it?

And there are two points that I asked specifically in my question. One is as to mortgage activity. Is that a savior or is that the problem? And two, I will ask about new starts, charters granted within the last 5 years.

How do they stand as an isolated population of the whole? Is there a difference?

In my experience, it's not wide enough. I wish I knew more. There are a lot of new players who shouldn't play at all in the business.

Does the evidence support that feeling?

Mr. **Janis**. I think it does, at least on an impressionistic basis. I don't have numbers right here. But remember, we also have regional problems. We have problems relative to oil and gas in States like Oklahoma, Louisiana, and Texas. And the S&L's there are suffering. They are suffering because they are invested in real estate. The real estate is depressed. We know that story. That is a regional kind of problem caused by external kinds of events.

In California, some of those problems are the result of the legislation of 1983 that made that charter so valuable by having virtually unlimited investment powers, as I have said. A lot of de novos got into the business and ran up huge amounts of losses and FSLIC suffered.

I think there's possibly been a lot of losses in commercial real estate ventures as opposed to residential and I think part of the problem there is the general overbuilding in this country of commercial real estate and the failure of real estate to continue—it's the fact that real estate prices have disinflated, as we all know. The increase in real estate prices that we have seen in previous years hasn't been able to whitewash all of the mistakes of overbuilding in commercial real estate.

Mr. **Roemer**. Fine.

Mr. **Anderson**. Mr. Roemer, you asked a very gut question there on trying to distinguish the behavior of those that made it and those that didn't.

Mr. **Roemer**. Yes, sir, I thought it was.

Mr. **Anderson**. And we have some information—I had a little two-page handout that you may still have accessible there.

Mr. **Roemer**. Yes, sir.

Mr. **Anderson**. That contrasts the industry generally with the typical insolvent. And what it shows is that the typical insolvent acted to restructure its portfolio. It tried to do the right thing in terms of getting into adjustable rate mortgages and moving into mortgage-backed securities and reducing its vulnerability with the fixed mortgages.

A lot of them were living with past mistakes and it gets back to that nonperforming asset, nonearning asset part of it there, especially on the big disparity in repossessions that each were saddled with.

But it appears as though they were acting rationally and acting like their more successful peers in trying to get better. Perhaps local, particular conditions involving their particular loans, the economy of their particular area had a lot to do with them.

[The two-page document referred to and submitted for the record by Mr. Anderson follows:]

Typical All Industry Thrift Asset Portfolio

(Percentages of Total Assets)

Mortgages		
Fixed		39.6
Adjustable		21.5
Mortgage-Backed Securities		10.7
NonMortgage Assets		
Nonmortgage Loans (con & com)		5.2
Liquid Asset		13.2
NonEarning Assets		
Repossessed	0.9	
Fixed	1.3	
Deferred losses	0.7	
Goodwill	2.4	
		5.3
Other Assets		4.5
Total		100.0

Typical Insolvent Unprofitable Thrift Asset Portfolio

(Percentages of Total Assets)

Mortages		
Fixed		40.0
Adjustable		22.3
Mortgage-Backed Securities		8.9
Nonmortage Assets		
Nonmortgage Loans (con & com)		4.0
Liquid		10.1
NonEarning Assets		
Repossessed	3.4	
Fixed	1.6	
Deferred Losses	1.9	
Goodwill	2.8	
		9.7
Other Assets		5.0
Total		100.00

Mr. **Anderson**. So I don't think it's a case of saying, from management's standpoint, you know.

I should mention that Dr. Garcia has written a paper that we can supply. It's probably too lengthy for the record, but certainly supply for all the members, where she did a study in collaboration with a person at the Fed, that tried to explore, through analyzing any number of variables, tried to explain what was the difference between those that succeeded and those that failed.

It's not a GAO document. We will provide copies, sir.

Mr. **Roemer**. I thank you, Mr. Anderson. Thank you, Mr. Chairman.

Chairman **St Germain**. That didn't answer his question. His question was about those that came into business in the last 5 years and were heavy in the direct investments and real estate.

Mr. Vento.

Mr. **Vento**. Thank you, Mr. Chairman.

Mr. Anderson, I think that our colleague has done a service by raising these questions. Mr. Parris is trying to bring about a discussion. Very often I think we have been going more on the basis of our feelings than reason with regard to some of the activities governing new powers and the problems of financial institutions, and that includes thrifts.

In reading the results, it seems to me that what you are trying to indicate is a trend. I think we get caught up in GAAP and RAP and a lot of other things that are significantly important in terms of a change of accounting. It's an accounting process. But I think what you are saying significantly is that, beginning at the end of 1979 through the first half of 1985, through this period, that there was a decline in a nearly uninterrupted fashion.

Would you like to elaborate on that?

Mr. **Anderson**. Well, what the numbers would show is that there was a decline, but there has been a subsequent recovery, Mr. Vento, and I think that is very important, because the point was made that the industry had record profits last year. It had the highest return on assets since 1979.

So they have turned the corner.

The unfortunate part of it is that there is a subset of thrifts out there that have not done as well as the average firm. We now seem to have a dichotomy in the universe, and I think Mr. Albers made the point, we have a bunch of sick ones and a bunch of well ones.

Mr. **Vento**. Just quoting from the report, it says, the average industry net worth declined in nearly an uninterrupted fashion from the end of 1979 until the first half of 1985.

Now I understand that there were some changes that took place in 1985——

Mr. **Anderson**. Yes, sir.

Mr. **Vento** [continuing]. But what I am trying to decipher is the impact of our actions in terms of new powers and in terms of accounting rule changes that we have provided, plus the net worth certificates and legislation that permits the buyout by nonsimilar institutions and establishes a pecking order. We are trying to decipher that here and we are looking at that now. We know what happened last year. There was a decline in interest rates.

Obviously, if we could have legislated that, it would have been the biggest cure of all. But we don't legislate that. Really, it seems, nobody has anything to do with interest rates, if you really want to get down to it. But that's usually a discussion that we have with Mr. Volcker, not with anyone else.

But the fact is, though, that that is what the document says. In other words, I am looking at these powers. What you are saying is in this subset of S&L's, of thrifts, of savings banks, there is a group that took advantage of those powers.

The suspicion in what I have read, and I think it's reflected in here, is that the way that those powers were exercised caused us some very serious problems. There are those that had the low yield portfolios. That problem will persist until we get a change in interest rates, or in monetary policy.

Mr. **Anderson**. Yes, sir.

Mr. **Vento**. But the new powers that were exercised led us to some difficulties.

Mr. **Anderson**. I don't speak with any real authority on that, but I can give you an impression from all the data I have looked at and all the things that I have read and heard.

It would seem that a number of thrifts have very effectively utilized those new powers. A number got well and got better.

It gets back to the point on direct investment. Some people make good direct investments and some made some very poor direct investments. But it was the no-lose situation for a bunch of the very sick thrifts that had nothing to lose by chasing out and really taking some gambles to get well that represented the abuses of these new powers.

But the point has to be made that a lot of responsible organizations used them and prospered with them.

Mr. **Vento**. Well, Mr. Janis, I think that maybe that's where you were referring to the use of the powers.

But if Congress were to pursue this policy, wouldn't we do well to try and limit the utilization of those new powers by those that, in essence, have nothing to lose in this particular instance?

I mean, those are the ones that need these powers. But shouldn't they somehow be limited in the utilization of those powers? Wouldn't that follow in the sense of the findings, or at least some of the findings of GAO?

Shouldn't that be a question that Congress is exploring?

Mr. **Janis**. Mr. Vento, which group are you saying should be allowed to use the powers? I am not clear in your question.

Mr. **Vento**. Well, those that have something to lose. In other words, those that probably have a higher net worth, those that have better ratings.

Mr. **Janis**. Yes, in general, I think that's right, if we get to a risk-based capital type of arrangement. For direct investment we have, in fact, that requirement now for additional posting of net worth.

But I think, in general, I agree with you.

Mr. **Vento**. From a regulatory standpoint, do you think that that type of action, that type of stratification, is possible?

Mr. **Janis**. Well, I think that is essentially what we have got now. Institutions with low net worth have problems making these kinds of direct investments, as a practical matter. They are limited in their ability to do so without permission of the principal supervisory agent in the district bank.

I think the condition that you are referring to actually now exists.

Mr. VENTO. Has been corrected, but it initially did not exist.

Mr. JANIS. Yes, that is a fair statement. That is exactly right, in my opinion.

Mr. VENTO. Thank you, Mr. Chairman. My time is expired. Thank you.

Chairman ST GERMAIN. Mr. Parris.

Mr. PARRIS. Thank you, Mr. Chairman.

I want to publicly thank you, Mr. Chairman, for these hearings. I think they are critical. They are important to the future of the financial institutions of this Nation.

On the question of Garn-St Germain, it was the right thing to do. And one fact clearly establishes that—the assets have increased 30 percent since Garn-St Germain, largely because of the reduction of the interest rates. It was the right thing to do at the right time.

Many of us believe that there is a window of opportunity to preserve this industry and that we will be derelict if we don't take that opportunity.

The report, I should re-emphasize, is based on FSLIC data. The GAO didn't dream these numbers out of whole cloth. They took their own information and created this report and furnished it to us.

This is, in fact, the tip of the iceberg. The danger is this is a very complex issue and we are trying to summarize "War and Peace" in three paragraphs. But what the worst danger is is that we may declare victory, walk away from the problem, and let it get worse.

Let me go back to the statement on page 1 which is critical to the understanding of this problem, which is the thrift industry is composed of two segments, one with firms which are insolvent and generally unprofitable and the other larger, happily, segment that is solvent and generally profitable.

Chairman Gray says the insolvent institutions are only 15 percent of the total, so don't worry about it. The GAO report says that under their own criteria, 42.8 percent of the institutions are weak and getting weaker.

Let's split the difference and say only 25 percent of the thrift institutions in this Nation are in trouble.

Well, in my opinion, 25 percent is too much. And the question is, Mr. Janis says, healthy industries can raise capital. That is right. They need capital. The whole industry needs capital. Healthy ones can. Unhealthy ones cannot. And they are getting sicker faster than the balance of the industry is getting well.

That is our basic problem.

The argument about RAP is really almost humorous. RAP is Regulatory Accounting Practices. The Federal Home Loan Bank Board has already reduced by almost half what you have to be to be a noninsolvent institution.

The problem with a failed institution is not equated with nonprofitability or low capital or bad management. It's all of those things and you are only failed when the Bank Board says you are failed.

That's when you fail. There is no reasonable standard criteria by which you can measure the production of satisfactory activities by any given institution under RAP.

Let's take RAP, for instance, on deferred loan losses, which we've talked about some.

This is where you take some of the suede-show, high-flyers that Mr. Janis talked about who put $10 million, for instance, in a wind farm. It doesn't work. They sell it for half of that. They report the $5 million loss, 10 percent this year, and carry the balance of the 90 percent as an asset on a loss they've already taken.

That's nothing but a smokescreen. It's a scam. And that's 74 percent of the total industry is made up of these things and goodwill.

Mr. McKinney has already covered that point.

One of the most important aspects of this report is on page 22 and 23. On page 22, if you look at it, it shows that with the assets of net worth of minus 8 to 12 percent, they are losing their assets at the rate of 2 to 8 percent per year. The worst ones are getting worse every day at an accelerating rate.

The next page shows that it is an unacceptable net worth situation for a larger percentage of them and those are the institutions that are the highest percentage of unprofitable thrifts. The problem with this situation, gentlemen, is that if we do not do something for the healthy segment of the industry, we are going to jeopardize the future of the entire industry. It's just about that simple.

Let's talk about Mr. Janis statement that the problem is manageable because of MCP's—the Management Consignment Program. There are 30 institutions, all of them in California, that have been put into that program. That means that I run a good thrift institution, so I take my management and I put it down the street to a competitor that has failed because he made bad loans.

How loing is that going to last? And the answer is that the good institutions can't do that forever. And the second answer is they cannot dispose of the bad assets because the FSLIC cannot afford to take the losses which last year ran, on the average, 23 percent of the total value of the assets of failed institutions.

We can't do anything except warehouse the loss. That's the first problem.

Section 406, a new institution. It's going to solve all the problems because all we have to do is take the bad loan losses that we have already suffered, put them into a new institution, and declare victory again. The problem with it is all it's ever done is hire a president for a quarter of a million dollars a year. They have no other staff and they're not even in business.

That's going to solve the problem? I think not.

Let's talk about——

Chairman St Germain. The gentleman's time has expired.

Mr. Parris. Thank you, Mr. Chairman.

Chairman St Germain. Mr. Sahadi, are there any MCP's in States other than California at this point in time? I know that there were plans.

Mr. Sahadi. Yes. There are MCP's in the State of Texas.

Chairman St Germain. How many do we have in Texas?

Mr. Sahadi. They are also in Texas, Florida, Illinois.

Chairman St Germain. But the bulk of them are in California?

Mr. SAHADI. The bulk are in California.

Chairman ST GERMAIN. Texas and Florida. And those three States are the States where the direct investment powers are rather liberal.

Is that not correct?

Mr. SAHADI. Texas and California.

Chairman ST GERMAIN. Correct. The Garn-St Germain bill limited direct investment to 10 percent; did it not?

Mr. SAHADI. Yes, sir.

Chairman ST GERMAIN. After 1984. Initially 5 percent, then 10 percent. But that's agricultural loans, commercial loans, participations, et cetera.

Correct?

Mr. SAHADI. Yes, sir.

Chairman ST GERMAIN. What is the cap in Texas, Mr. Sahadi?

Mr. SAHADI. In Texas?

Chairman ST GERMAIN. Yes.

Mr. SAHADI. I don't think there is a cap in Texas, sir.

Chairman ST GERMAIN. Therefore, it is 100 percent.

Mr. SAHADI. Similar to California.

Chairman ST GERMAIN. Similar to California.

Mr. Janis, you heard the testimony of Mr. Parris a few moments ago and I wondered if you would like a few moments to comment on any of his observations.

Mr. JANIS. Mr. Chairman, I feel a little bit like a kid in a candy store. I almost don't know where to start.

Chairman ST GERMAIN. Well, why don't you start some place. I have got 4½ minutes left, so go ahead.

Mr. JANIS. There are so many areas where I would have taken exception to what the Congressman said.

I suppose it really gets down to a question of whether you want to look at whether the glass is half full or half empty. If you just want to look for negatives, you can find them.

This notion of the Congressman's that 25 percent are sick and won't make it, if I am paraphrasing correctly, I think that——

Mr. PARRIS. That's not what I said, Mr. Janis.

Mr. JANIS. What did you say, sir?

Mr. PARRIS. Mr. Chairman, with your permission. I said, Mr. Janis, that if you take Mr. Gray's admitted 15 percent of the institutions that are troubled and if you take the GAO's report, which is 42.8 percent, under acceptable standards of net worth or insolvency, and if you just split that in half, that is 23 or 25 percent or so, of the industry which is troubled, it is unlikely that FSLIC is going to have to bail them all out at once or the total amount.

Chairman ST GERMAIN. I take it that Mr. Janis now understands what you said. So he can proceed.

Mr. PARRIS. Thank you. Thank you, Mr. Chairman.

Mr. JANIS. Thank you for that clarification, sir.

That number seems to fly in the face of the fact that 90 percent of the industry was profitable in 1985. It seems to fly in the face of the fact that 80 percent of the industry is currently meeting its regulatory net worth requirements.

There's no question that there is a strain on the industry, on the insurance funds, on the deposit system. There is no question about that.

But this is a manageable thing. To think that just the 406 is going to solve the problem or just the MCP is going to solve the problem is missing the point. Those things help to stretch out the problem.

The point is that there are assessments coming in to the FSLIC every year. Over a 10-year period, that is well over $23 billion, by my calculation.

I believe that, given what is coming into the FSLIC over a period of time in assessments, and even if the special assessment is reduced somewhat, which I think it can be and should be shortly, given that, plus whatever the Federal home loan banks can contribute and not hurt their ability to market consolidated obligations in the capital markets, given those combined numbers, I think there is going to be more than enough funds to deal with the problems that the Congressman has alluded to.

I think the money is there. The stretchout is in place to handle it over time. The money is coming in. The regulations are now tight enough to prevent future S&L's from falling over the cliff—oh, a few will for sure. But I think the number of problem cases have peaked. I understand that is a new finding from the Federal Home Loan Bank Board.

And therefore, I think everything that needs to be is in place. I think we can work this situation out.

Chairman **St Germain**. Thank you. Mr. Roth.

Mr. **Roth**. Yes. I just have two questions. The first question is, no matter what percentage, whether it's 10 percent, 15 percent, 25 percent of the S&L's that are in trouble, what is the strain going to do to FSLIC?

If we could have you make a prediction, what is going to happen? I would like to ask Mr. Anderson or Mr. Janis.

Mr. **Anderson**. The problem seems to be capable of almost infinite deferral. In other words, right now, it's already been shown that FSLIC's own numbers, by their RAP accounting practices, show 88 insolvent and unprofitable institutions. And yet, I think the point was made that FSLIC and the Bank Board decide when an institution in fact requires liquidation or merger. Therefore, they are able to sustain these institutions indefinitely.

Therefore, to the extent that they do that, I mean, you can project out there as far as you want and say that there will not be—there not necessarily will be an overwhelming crunch on the fund as a result of the situation that we describe in their report.

Mr. **Roth**. Are you saying that the public really doesn't have to be concerned about this issue?

Mr. **Anderson**. No, I am not saying that, sir. I am saying that the issue is that ultimately, the price is going to have to be paid. So that's one point I guess you could read from the numbers that we have in our report.

If, in fact, some part of these sick firms have no promise at all of getting well, then at some point in time, you know, we can no longer defer recognizing the losses that, perhaps for all practical purposes, have already been incurred.

It is a question of when you pay the piper, so to speak. And there is another issue as well that I can't speak to, is the situation—are our liabilities actually growing as a result of our inaction, as some of these firms continue to lose money? But it's that subset of sick ones that we have to be concerned about. I would like to read one thing that Mr. Stern testified before this subcommittee because I don't know how true it is, but read it, listen to it:

> There are a lot more cases out there than anyone wants to believe. The calendar in Texas and California is full of really sick institutions. We are talking about problems with 30, 40, 50 percent of asset value, not 10 percent. All they do is pile up—Texas, Louisiana, Arkansas alone is a disaster. There are dozens in the $500 million to $1 billion range.

Well, what evidence is there to support that at all? The only thing we have is the liquidations that I referred to earlier where we had four major institutions—Empire, San Marino, Knox Federal, and Beverly—that at the time when a dissolution and an examination, a proper examination of their portfolio, showed that they were much worse, the picture was much worse than presented in the financial statements of the institutions.

Mr. **Roth**. Mr. Anderson, that is why I was trying to be facetious when I said the public doesn't have to be concerned——

Mr. **Anderson**. I understood that, sir.

Mr. **Roth** [continuing]. Because when I heard the panel here this morning, I am much more concerned now than when I was before the hearing, and we have Mr. Gray contacting us and telling us, well, don't take this GAO report so seriously. This is the interpretation I have. He says, I am concerned that the report perhaps inadvertently overstates the problem facing FSLIC.

I think it's pretty hard to overstate the problem. There's a real problem here and the public does have to be concerned.

My second question would go to Mr. Albers, and that is this. To what extent are nonbank banks going to hurt thrift institutions?

In other words, if we in Congress don't do something with this issue of the nonbank banks, what is going to be the impact on savings and loans?

Mr. **Albers**. It's very difficult for me to answer your question because they are relatively new and few. We have some in New Jersey, maybe a half dozen, and they have not had any particular impact on the State as a competitive factor.

If you remember, my response to the overall question came out of a procompetitive philosophy rather than espousal against any given competitor's status. In New Jersey they have not had any significant impact whatsoever. They are maybe as old as 2 years, possibly a little longer, so I don't think all the evidence is in.

Mr. **Roth**. I wonder if I could ask Mr. Janis, could you make a prediction as to what will happen if nothing is done with the nonbank bank loophole.

Mr. **Janis**. It simply makes FSLIC's problems that much more difficult to solve because the franchise value that FSLIC would be selling loses its value to the extent that nonbank banks are extant.

Mr. **Roth**. Thank you, Mr. Chairman.

Chairman **St Germain**. Mr. Vento.

Mr. **Vento**. Mr. Chairman, just one comment. Mr. Anderson was pointing out in his appendix, in the GAO appendix, they point out the two factors. First, institutions that are insolvent and unprofitable are deteriorating, not recovering.

Now we haven't received any further read on that, but that makes the problem worse for FSLIC and that, in essence, looks at the merger activities and other remedies that are available.

But if I understand the report, the report did not look at what the remedies were. It's sort of a static picture of what is occurring.

Is that right, Mr. Anderson?

Mr. ANDERSON. That is correct, sir.

Mr. VENTO. Well, I can begin to see why Mr. Janis and others are concerned about this because, clearly, we know that those problems are there.

I was always under the impression, in talking to Mr. Gray, frankly, that he was deeply concerned about the prospects of the insurance fund. That was one of the reasons that he had raised the question of the additional 1 percent assessment, which, of course, is very controversial within the industry.

But clearly, these problems continue to grow. I think that the restrictions that have been placed in terms of new powers on those institutions are entirely appropriate, especially when they continue to enjoy the insurance and are exercising these powers without any actual capital at risk themselves.

Mr. Janis, do you have any reaction to what I said? However we measure it, through RAP or through GAAP, or whatever, the trend has been down. You think that you cannot look at these in a vacuum. You have to look at them in the context of the other resources or tools available that are being utilized.

Is that right?

Mr. JANIS. Yes. I think that is exactly right, Mr. Vento. And I think also you have to have up-to-date data is you're going to look at it. You can't look at data that's 8 months old.

You have got a moving target here. We have got cycles in our economy, cycles in interest rates, S&L's at some points are better off, and worse off as others. And to look at it 8 months ago is to miss what is essentially the basic trend of the last 8, 9, 10—well, actually, since the middle of 1984, according to GAO's own report.

Mr. ANDERSON. I have to break in and make a point, Mr. Vento.

Yesterday, data was presented by the Bank Board to the Senate Banking Committee. The data, and I have a copy of it here, shows essentially the same picture as we present in our report.

I will be glad to provide copies of that.

Mr. VENTO. I don't want to get into the last 8 months because I think the circumstances were unique during that time. Mr. Chairman, if that has not been made part of the record, I would ask unanimous consent that it might be.

Has it already been made part of the record, Mr. Chairman?

Chairman ST GERMAIN. Which is that?

Mr. VENTO. The record, the data that was presented to the Senate Banking Committee yesterday with regards to the table.

Chairman ST GERMAIN. Without objection, that will be inserted into the record at this point.

[The table requested by Congressman Vento follows:]

Mr. VENTO. Thank you, Mr. Chairman.

The concern that I was trying to raise and I guess you are going to get into, is that looking at this on the average, it's improved in the last 8 months. But your point, Mr. Anderson, is that institutions are still persisting in having more serious problems.

Is that your point?

Mr. ANDERSON. Yes, sir. And I don't think—I can't imagine that any of the gentlemen would disagree that there's some subset in there that are really sick.

Mr. VENTO. I think that we keep getting into this average and then slipping in and out of it, Mr. Chairman.

But obviously, we want to have current information.

I thank the chairman and would yield back whatever time I have remaining.

Chairman ST GERMAIN. I would like to ask one question of all four witnesses and that is—well, it's a two-pronged question, but I hope that it will be answered succinctly because we have had our discussion. Now let's get to what I think is a very important portion of this hearing. And that is whether or not, as we face the April 15 expiration date, whether or not we should or should not extend the net worth certificates and second, whether or not we should extend the hoops, the hoops being the methodology by which failed institutions are acquired across State lines when there is no one within the State to take over.

Mr. Anderson, what is GAO's opinion?

Mr. ANDERSON. No, sir. I don't have an informed opinion.

Chairman ST GERMAIN. On either point? It seems to me that you should have an informed opinion on the net worth certificates.

Mr. ANDERSON. Yes, sir. I would say that the net worth certificate program, to the extent that it could ever be desirable to defer action on a particular institution, it's good to have that tool available, as you do other tools, like income capital certificates.

On that basis alone, I would say it certainly can't hurt and it could help. Therefore, renew.

Chairman ST GERMAIN. Mr. Sahadi.

Mr. SAHADI. Yes, the Bank Board supports continuations of both of these provisions. They have been very effective tools for the Bank Board over the last 4 years.

Chairman ST GERMAIN. Mr. Janis.

Mr. JANIS. Yes, Mr. Chairman, I believe they should be extended. They have worked well in the past. They have saved well-managed institutions from insolvencies, and they have saved FSLIC resources so they could work on more serious problems.

Chairman ST GERMAIN. Mr. Albers.

Mr. ALBERS. To be very succinct, Mr. Chairman, yes, I think each should be extended.

Chairman ST GERMAIN. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman.

I think the subject has been very well covered this morning. I would just congratulate our witnesses for their excellent appearances and thank them for their testimony.

Thank you.

Chairman ST GERMAIN. I, too, would like to extend my appreciation to the panel for their assistance. And also, incidentally, for their cooperation on short notice with the subcommittee because we did want to get these hearings started.

I have got to say to the committee members that this panel was more than accommodating to us, and for that, we are deeply grateful.

Mr. PARRIS. Mr. Chairman.

Chairman ST GERMAIN. Mr. Parris.

Mr. PARRIS. Mr. Chairman, I might inquire if I am going to be permitted a second round of questioning.

Chairman ST GERMAIN. I didn't know that you had any more questions. I am sorry.

Mr. PARRIS. I would appreciate the opportunity, Mr. Chairman.

Chairman ST GERMAIN. Go ahead.

Mr. PARRIS. Thank you. I have spent a great deal of time on this issue and I feel very intense about our opportunity to correct the problems.

I apologize if I appeared aggitated in my previous remarks. I mean no offense to any of you gentlemen.

I did, in fact, misspoke when I talked about the MCP program being in California. I did not mean to suggest that. There were nine institutions put into that program last year. I think one-third of those institutions are in California.

Let me just make one point for the record.

Mr. Albers, from the council, and Mr. Sahadi, from the Federal Home Loan Bank Board, agreed, in essence, in their statements, with the parameters of the report and the accuracy of the report. And I think that's a giant step forward. It's a major accomplishment as a result of this hearing, because it's the first time that there's been a public recognition that there might be a problem here that needs to be addressed. I think, if nothing else, we have had a productive last 2 hours and a half for that purpose.

Let me go back to Mr. Janis' comment. This is a stale report. It is 8 months old. That is correct. But in the 6 months that we have so wonderously watched the balance of the institutions have record profits, for which we are all grateful, 27 additional federally insured institutions have been plunged into insolvency.

So it is not just the health of the top two-thirds or whatever the number is—85 percent, I will give you that. It's the unhealthy conditions of the bottom of it that concerns us all. And that sour apple is going to taint the barrel if we are not careful.

Mr. Janis also said that people are interested, will their neighborhood savings and loans close? No, they will not close. Will the depositors lose money? No, they will not because of the full faith and credit.

But that's not the question. It's not the issue. they won't lose money because of FSLIC, because the Federal Government won't let them lose money and State-chartered institutions are permitting institutions like the California S&L's to do anything they can dream up, including financing race horses or anything else, and they know the Federal Government will cover their losses.

It is just that simple.

Well, whether my constituents in Virginia or yours in California lose the money, it is Government money and it is a Government obligation that will not be repudiated by this Congress.

Let's ask Mr. Sahadi. If, in fact, the loss on bad loan management, questionable assets, is not 23 percent, is that a fairly accurate number, in one word or less, yes or no, for last year?

Mr. SAHADI. That was approximately the number for cases, asset problem cases, at the end of 1985.

Mr. PARRIS. Thank you. Now, if, in fact, the unobligated reserves that Mr. Gray has testified to us is $2.7 billion, in round numbers, does that include the income certificates and all of the other unobligated reserves—which the President's budget indicates will be at the end of this fiscal year $1.1 billion? $1.1 billion to cover the assets, the whole assets, not all of which will be lost of the troubled institutions whose combined assets exceed $433 billion.

Is that a fair summary?

Mr. SAHADI. I think it is a somewhat misleading number in the sense that, as other people have testified, we have a Federal Home Loan Bank System that——

Mr. PARRIS. Oh, I understand. Mr. Sahadi, my time does not permit us to go into an esoteric discussion of all of the other ramifications of the possible credit capabilities.

That is not important.

Mr. SAHADI. The answer to your question, a succinct answer to your question is the reserves are running dangerously low.

Mr. PARRIS. All right. "Dangerously" is a subjective word, but I will settle for it.

My point is, if you took all of those institutions, which we will not, if you took all of those troubled institutions and experienced the same loss ratio that you realized in last year, we're talking $110 billion in assets.

Now that's a worst-case scenario. Don't overreact on me. I am just saying that's a mathematical calculation.

Mr. Gray says the unobligated reserve losses right now is about $17 billion. GAO says $22 billion.

Well, it doesn't really matter who is more correct. The point is it is enormously more than the amount of the insurance fund capabilities under existing processes.

That's my whole point. Thank you very much, Mr. Chairman. You have been very generous.

Chairman ST GERMAIN. Thank you.

I would like to point out or mention that in October of 1980, the chairman held a meeting, at which time he called in the Federal Reserve Board, the Federal Home Loan Bank Board, the leaders of the mutual savings bank industry, and the savings and loan industry, because at that time, it was obvious that the problem existed.

So we have known about this problem. As a result, incidentally, it took a long time for the regulatory agencies and the Fed to finally come up with recommendations. As a matter of fact, I think it wasn't until May of 1981 that they came up with recommendations.

Garn-St Germain was enacted into law in 1982 as a result of those original meetings in 1980, at which time we took full cognizance of the fact that the savings and loan industry and the thrift industry, the mutual savings banks in New York, for instance, were in dire consequences.

I can say with pride that we did provide tools. We did provide a means to bridge the emergency that was there and that is why we are having these hearings again today. Fortunately, the situation is nowhere near as critical as it was at that point in time, as has been testified.

Fortunately, wise utilization of many of these powers that were granted, in addition to a very, very fortunate decrease in interest rates has helped alleviate this situation.

But we are not sitting back. We are recognizing the fact that we must be prepared for the future and that is the reason for these hearings. Once again, I say to the panel, many thanks for your cooperation, your assistance, and your accommodation.

The subcommittee will be in recess to the call of the Chair.

[Whereupon, at 12:40 p.m., the subcommittee recessed, to reconvene at the call of the Chair.]

[Letters of invitation to witnesses of this day follow:]

FERNAND J. ST GERMAIN, RHODE ISLAND, CHAIRMAN

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MARGE ROUKEMA, NEW JERSEY
DOUG BEREUTER, NEBRASKA
STEVE BARTLETT, TEXAS
TOBY ROTH, WISCONSIN

March 3, 1986

Mr. William J. Anderson, Director
General Government Division
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Anderson:

To assist this Subcommittee in the discharge of its responsibilities, you are requested to appear before the Subcommittee on Wednesday, March 5, 1986, at 10:00 am, in Room 2128 Rayburn House Office Building, and provide testimony on the condition of depository institutions insured by the Federal Savings and Loan Insurance Corporation. You are specifically asked to testify on the following matters of concern to the Subcomittee:

1. What is the current condition of FSLIC-insured institutions?

2. Are there any statutory or regulatory changes that should, in your judgment, be implemented to strengthen the capital positions and/or franchise value of FSLIC-insured institutions? Please provide a summary report on the Net Worth Program (Title I of PL 97-320) and Emergency Acquisition Authorities (Title II of PL 97-320), and recommendations and conclusions thereto.

In accordance with Committee Rules, please deliver 175 copies of your prepared statement to Room B303 Rayburn House Office Building twenty-four hours in advance of your scheduled appearance. Your statement in its entirety will be included in the hearing record and, if delivered as requested, the statement will be made available to all Subcommittee Members in advance of the hearing. To provide all Subcommittee Members with sufficient time for questioning, the oral presentation of your prepared statement must be limited to ten minutes.

Sincerely,

Fernand J. St Germain
Chairman

FJStG:dDv

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STEVE BARTLETT, TEXAS
TOBY ROTH, WISCONSIN

March 3, 1986

Mr. Jay Janis
Thrift Institution Consultant
c/o U.S. League of Savings Institutions
1709 New York Avenue, N.W., Suite 801
Washington, D.C. 20006

Dear Mr. Janis:

To assist this Subcommittee in the discharge of its responsibilities, you are requested to appear before the Subcommittee on Wednesday, March 5, 1986, at 10:00 am, in Room 2128 Rayburn House Office Building, and provide testimony on the condition of depository institutions insured by the Federal Savings and Loan Insurance Corporation. You are specifically asked to testify on the following matters of concern to the Subcommittee:

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Sincerely,

Fernand J. St Germain
Chairman

FJStG:dDv

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STEVE BARTLETT, TEXAS
TOBY ROTH, WISCONSIN

March 3, 1986

Mr. Kenneth F. X. Albers, Chairman
National Council of Savings Institutions
1101 Fifteenth Street, N.W. Suite 400
Washington, D.C. 20005

Dear Mr. Albers:

To assist this Subcommittee in the discharge of its responsibilities, you are requested to appear before the Subcommittee on Wednesday, March 5, 1986, at 10:00 am, in Room 2128 Rayburn House Office Building, and provide testimony on the condition of depository institutions insured by the Federal Savings and Loan Insurance Corporation. You are specifically asked to testify on the following matters of concern to the Subcommittee:

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Sincerely,

Fernand St Germain

Fernand J. St Germain
Chairman

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WASHINGTON, DC 20515

[illegible]

March 3, 1986

Mr. Robert Sahadi, Acting Director
Office of Policy and Economic Research
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D.C. 20552

Dear Mr. Sahadi:

To assist this Subcommittee in the discharge of its responsibilities, you are requested to appear before the Subcommittee on Wednesday, March 5, 1986, at 10:00 am, in Room 2128 Rayburn House Office Building, and provide testimony on the condition of depository institutions insured by the Federal Savings and Loan Insurance Corporation. You are specifically asked to testify on the following matters of concern to the Subcommittee:

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Sincerely,

Fernand J. St Germain
Chairman

FJStG:dDv

FINANCIAL CONDITION OF THE BANK AND THRIFT INDUSTRIES

WEDNESDAY, MARCH 12, 1986

House of Representatives,
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance,
Committee on Banking, Finance and Urban Affairs,
Washington, DC.

The subcommittee met at 10:30 a.m. in room 2128 of the Rayburn House Office Building, Hon. Fernand J. St Germain (chairman of the subcommittee) presiding.

Present: Chairman St Germain; Representatives Annunzio, LaFalce, Oakar, Vento, Schumer, Lehman, Kaptur, Kanjorski, Carper, Wylie, Leach, McKinney, Shumway, Wortley, Parris, Roukema, Bartlett, and Roth.

Chairman **St Germain**. The subcommittee will come to order. That means we are asking people to take seats.

This morning we resume hearings on the impact of declining oil prices, sagging farm economies, international debt, and risky investments on our Nation's depository institutions. Those affected by these problems don't have the luxury of waiting while Congress debates for weeks on end. Farmers needing to plant their spring crops are finding their banks burdened with problem loans, and they are unable to make new loans. Help from the Farmers Home Administration, the rural lender of last resort, is certain to be limited, if it is available at all.

Some predict thousands of farmers could face financial ruin and hundreds of banks may fail, if the solution is not found. Farm banks are not expendable. The harsh reality is that when a community loses its only bank, there is nowhere else to turn.

A number of proposals have been offered to assist farm banks and enable them to make new loans. These proposals are: first, issuing net worth certificates; second, permitting extended loan writedown periods; third, creating additional programs for principal or interest rate buydowns; fourth, placing a moratorium on foreclosures; and fifth, relaxing State laws to ease the preservation of banking services to communities with a failing bank.

Our first three witnesses, all House colleagues, will offer their views of these and other proposals for assisting farm banks. Their testimony, I am sure, will be of great help to our committee in its deliberations on how best to assist our farm banks.

Agricultural banks are not the only financial institutions facing hard times. The GAO recently reported that 461 thrift institutions

FSLIC-Insured Institutions
(September 30, 1985)

		Insolvent			Low Net Worth - 0-3% of Assets			Total - 3% Net Worth or Less		
	All	RAP 1/	GAAP 2/	TAP 3/	RAP	GAAP	TAP	RAP	GAAP	TAP
Number of firms	3,224	105	461	686	680	788	788	785	1,249	1,474
Assets ($billions)	1,042	22	114	343	253	320	346	275	434	689
Net Worth/Assets (%) (as measured, respectively, by RAP, GAAP, and TAP)		-4.9	-3.3	-4.7	1.93	1.84	1.63	1.38	.47	-1.5
Firms with positive net income in 3rd quarter	2,611	4	225	377	421	587	628	425	812	1,005
Net income ($millions)	1,052	-380	-379	-169	-60	91	462	-440	-288	293
Annualized ROA (%)	.41	-6.80	-1.32	-.20	-.10	.12	.54	-.64	-.27	.17

Source: FHLBB's Office of Policy and Economic Research

1/ Regulatory net worth.

2/ Net worth as defined under Generally Accepted Accounting Principles.

3/ Tangible net worth -- GAAP net worth less goodwill and other intangible assets.

are technically insolvent. While some have challenged this figure, no one has yet come before this committee to state that no problem exists. Indeed, our second witness, Chairman Ed Gray of the Federal Home Loan Bank Board, has outlined the many problems facing this industry on several prior occasions. Today he will provide us with an update on the thrift situation and proposals for addressing it.

Now our first panel consists of the Honorable Thomas A. Daschle, South Dakota, the Honorable Sander M. Levin, of Michigan, and the Honorable Doug Bereuter of Nebraska. Two of these Members, as we know, are members of the full committee.

We will start in the order of arrival and recognize the Honorable Thomas A. Daschle, after I recognize our ranking minority member, Mr. Wylie, for an opening statement.

Mr. WYLIE. Thank you very much, Mr. Chairman, and I too would like to welcome this very distinguished panel of Members of Congress before this subcommittee today. They are here today to address the critical issue of the farm economy and potential legislation to assist troubled agricultural lenders and borrowers. I would especially like to welcome our fellow Banking Committee members. The Honorable Doug Bereuter is here someplace; he is not at the desk. But Sander Levin, welcome. That is a little different hat you are wearing on the other side of the table.

But Mr. Chairman, as you know, last year Congress passed legislation addressing the difficulties of the Farm Credit System, and during that debate, numerous proposals to assist commercial banks engaged in farm lending were suggested, but none was adopted. Buydowns of principal and interest, the extension of net worth certificates to agricultural banks, moratoriums on foreclosures and extension of writeoffs and losses of agricultural lending institutions were all proposed in bills which were introduced by Messrs. Bereuter, Bruce, Daschle, and Levin.

In addition, Federal regulators cautioned our colleagues on the Senate Banking Committee yesterday against passing any legislation. Instead the panel of regulators testified in favor of a regulatory approach.

There are a number of issues and questions we have to address to determine what, if any action is called for. The problems faced by the agricultural banks will ultimately be eliminated only when the agricultural problem itself is eliminated. In the meantime, we are going to have to come up with some answers to some questions.

In this era of Gramm-Rudman budget discipline, we must also consider potential costs of any legislation which we enact, but we need to keep the whole issue in perspective. I also look forward to the testimony of Chairman Ed Gray, the distinguished Bank Board Chairman, who is directly on the firing line on the issue of the condition of the thrift industry. Last year, you——

Chairman ST GERMAIN. Excuse me. The gentleman is making an important statement, and I think that the least the members could do is give the Banking Committee minority member, the courtesy of their attention.

Mr. WYLIE. Thank you very much, Mr. Chairman. I was about to say that last year, you and I introduced legislation at Chairman Gray's request providing for risk-based deposit insurance and enhanced examination and enforcement powers, and we will be interested in learning what has taken place as far as that legislation is concerned in the deliberations of the Federal Home Loan Bank Board. We will also be interested in Chairman Gray's reaction to the GAO report and his recommendation on the extension of net worth certificates to the agricultural banks.

Thank you very much, Mr. Chairman. I do look forward, indeed, to the testimony of our distinguished panel.

Chairman St Germain. Thank you, and before recognizing Mr. Lehman, I just want to say to the members that the chairman started the hearings this morning at 10:30, because of some necessary surgery on his gums, and I feel a little swollen and maybe a little yantzy. So I think that that should be made known to my fellow members.

The Chair now recognizes Mr. Lehman.

Mr. Lehman. Thank you, Mr. Chairman. I would like to commend you for holding these hearings on the financial condition of depository institutions with the emphasis at today and tomorrow's hearings on the problems as they relate to commercial agricultural credit.

While most of the attention of the past 2 or 3 years has been focused on the dramatic problems facing the farm communities in the Midwest, I would like to point out that California agriculture has been facing similar problems for the past year with regard to cash flow, credit availability and dramatic decreases in land values.

We in California suffer generally from the same set of circumstances that have caused the economic crisis in other States and regions of the country. The optimistic growth of the 1970's, which resulted in increased production and international trade has given way to a struggle for survival in the 1980's. California farmers, like farmers elsewhere in the country, are victims of domestic, monetary and foreign policies that have seen once lucrative foreign markets disappear, cut land values and equity in half and resulted in overproduction and surpluses.

The fact that the agricultural economic crisis has reached California is significant. Despite the long growing season, diversity of crops, difference in farm operations, and less reliance on Federal farm programs, California agriculture finds itself in an economic situation today similar to that being experienced in the Midwest.

Similarly, California financial lending institutions are not immune from the financial problems which face each one of its agricultural borrowers, despite the fact that many of these lending institutions are extremely efficient and highly diversified. It should be noted that five of the top six largest commercial bank agricultural lenders are located in California and that California banks hold 10 percent of the agricultural loans, the largest volume nationwide.

As we begin our timely deliberations on this important issue, I would like to call attention to the unique agricultural credit problems that California farm borrowers and lending institutions face. And I would like to point out that any legislative remedies which this committee may ultimately adopt, take into consideration the needs and interests of those institutions in California, as well as those in other parts of the country.

I am a cosponsor of Mr. Bruce's legislation, H.R. 4241, and would certainly support other legislation which has been introduced. However, I am concerned that some of the proposals might not address the problem as it exists in California, because of the inherent differences between California agriculture and agriculture in the rest of the country. California clearly has a large stake in this issue, and I look forward to working with my colleagues, both on and off the committee, in resolving the problem.

Mr. Chairman, I would like to enclose for the record a copy of the "Recommendations of the California Bankers Association Agricultural Task Force," which outlines their priorities regarding the resolution of this issue.

Chairman St Germain. Without objection, it will be placed in the record at this point. And certainly, we recognize the fact that California is big and, therefore, probably would have a big problem.

[The opening statement of Representative Lehman with an attached copy of the "Recommendations of the California Bankers Association Agricultural Task Force" follows:]

RICHARD LEHMAN
Statement on the
Financial Condition of Depository Institutions
Before the
Financial Institutions Subcommittee
March 12, 1986

Mr. Chairman: I would like to commend you for holding these hearings on the financial condition of depository institutions, with the emphasis at today and tomorrow's hearings on the problems as they relate to commercial agricultural credit.

While most of the attention of the past two or three years has been focused on the dramatic problems facing the farm communities in the Midwest, I would like to point out that California agriculture has been facing similar problems for the past year with regard to cash flow, credit availability and dramatic decreases in land values.

We in California suffer generally from the same set of circumstances that has caused the economic crisis in other states and regions of the country. The optimistic growth of the 1970's which resulted in increased production and international trade has given way to the struggle for survival in the 1980's. California farmers, like farmers elsewhere in the country, are victims of domestic, monetary, and foreign policies that have seen once lucrative foreign markets disappear, cut land values and equity in half, and resulted in overproduction and surpluses.

The fact that the agricultural economic crisis has reached California is significant. Despite the long growing season, divesity of crops, difference in farm operations, and less reliance on federal farm programs, California agriculture finds itself in an economic situation similar to that being experienced in the Midwest.

Similarly, California financial lending institutions are not immune from the financial problems which faces each one of its agricultural borrowers, despite the fact that many of these lending institutions are extremely efficient and heavily diversified.

It should be noted that 5 of the top 6 largest commercial bank ag lenders are located in California and that California banks hold 10% of the ag loans, the largest volume nationwide.

As we begin our timely deliberations on this important issue, I would like just like to call attention to the unique agricultural credit problems which California farm borrowers and lending institutions face. And I would like to point out that any legislative remedies which this committee may ultimely adopt take into consideration the needs and interests of those institutions in California, as well as those in other parts of the country.

I am a cosponsor of Mr. Bruce's legislation, H.R. 4241, and would certainly support other legislation which has been introduced. However, I am concerned that some of the proposals might not address the problem as it exists in California because of the inherent differences between California agriculture and agriculture in the rest of the country.

California clearly has a large stake in this issue and I look forward to working with my colleagues both on and off the committee in resolving this problem.

I would like to enclose for the record a copy of the "Recommendations of the California Bankers Association Agricultural Task Force" which outlines its priorities regarding resolution of the issue.

California Bankers Association

RECOMMENDATIONS OF THE CALIFORNIA BANKERS ASSOCIATION AGRICULTURAL TASK FORCE

The California Bankers Association Agricultural Task Force supports the recommendations of the American Bankers Association - Independent Bankers Association of America Task Force on Agricultural Credit. These recommendations seek to help stabilize troubled agricultural assets held by commercial banks and other private financial institutions while long-term policies are gradually implemented to restore profitability to the agricultural industry.

Our recommendations which follow focus on certain provisions of the ABA/IBAA plan which are of particular importance to agricultural borrowers and their commercial lenders in the state of California.

Any program or policy must: (1) permit the market to determine which producers will survive, (2) be directed at producers who have the ability to continue their operation on a profitable basis; and (3) provide equal access for all institutions which make agricultural loans.

The priority should be first and foremost to stabilize the value of agricultural assets. Action to achieve this, would be of benefit to all types of farming, and all types of banks, throughout the country.

Action recommended by ABA/IBAA to stem the erosion of agricultural banks' capital via changes in regulatory accounting procedures is an important national step. However, because of the different nature of lending to agriculture in a state like our own, we do not foresee that such action will provide California borrowers and lenders a signficant opportunity to stabilize farm debt situations. Capital stabilization programs, while important for undiversified banks which are situated primarily in agricultural communities outside California, must be augmented by other stabilization programs which aim at the overall problem in agriculture -- stabilization of agricultural assets.

Stabilization of agricultural assets can be accomplished via proposals such as a quasi-governmental agricultural financing corporation which could act as a "holding tank" for troubled farm assets until the economic environment is more favorable. A mechanism such as this will keep devalued agricultural assets off the market during the current "fire sale" mentality and will help strong farmers whose land values might otherwise be brought down by spiraling deflation of land prices. The more land that is kept off the market, the more likely that the productive farmer can maintain the value of his own land and avoid entering a higher debt to asset ratio that could be his ruin. Threfore, CBA considers it a high priority to develop a program t remove troubled agricultural assets from the marketplace. In vie of the establishment via the Farm Credit Act Amendments of 1985 of the Farm Credit System Capital Corporation to warehous non-performing loans and acquired property, CBA believesthat a similar vehicle for farm assets held by commercial lende is a reasonable and obtainable goal.

Another way to contribute to the stabilization of agricuturally-related real estate prices is to allow banks to hold a limited percentage of their assets in agriculturally-related rea estate and permit the holding period for repossessed real estat to be extended longer than the present five year limit. The current restrictions on holding agriculturally-related real estate forces lenders to place foreclosed property on the marketlace; serving only to exacerbate the difficulties for all farmers caused by continually devalued land prices.

Also attractive as a means of stabilizing assets is to channel state and federal funds directly into interest rate reuctions for agricultural loans. Because of the importance of nterest rates in any effort to stabilize agricultural debt, Caifornia borrowers should enjoy equal access to any "buy down" program aimed at agricultural borrowers. The program must provic assistance solely to producers who currently have an unmanageale debt situation but can stabilize their financial condition by articipation in the program. The program should not be directe solely at borrowers of certain lenders (such as traditional deinition of an "ag bank" which is defined by the percentage of the lender's portfolio in agricultural loans and which excluds many diversified lenders with large ag portfolios) or we may ell see lenders with the strongest financial resources changir their focus to other industries and thereby worsening farm cah flow problems and the long-term impact on the FCS.

In addition, we recommend expansion of the eligibility riteria for participation in FmHA loan programs. Current restictions prohibit many borrowers in California from participaing in current programs.

We also seek stabilization of assets through an insttutional secondary market for farm real estate loans. Clearly, almost total reliance upon the Federal Land Bank has provec to be unhealthy for agriculture, commercial banking and the Fa Credit System as well. All ag lenders must have a long-term loa product which will enable them to approach farm credit with the lng-term orientation that is so essential for prudent financing of the industry. A secondary market would provide access to acitional funds and diversify risks and returns from farm lending. One option is to pool FmHA-guaranteed loans for resale as ortgage backed securities to investors. CBA considers a scondary market for farm real estate loans a high priority in acressing long term solutions for restructuring and improving te farm credit situation.

Chairman St Germain. Now we will recognize our first colleague, the Honorable Thomas A. Daschle, and we will put your entire statement in the record, without objection, as we will do with the statements of anybody who wishes to submit one.

Mr. Bereuter, do you have a prepared statement? Yes. We will put yours in the record as well.

In addition to that, without objection, our colleague, Mr. Bruce, who was unable to be here this morning, but who did submit a statement, we will put that in the record at this point.

[The statement of Representative Terry L. Bruce of the State of Illinois follows:]

STATEMENT OF REPRESENTATIVE TERRY L. BRUCE
BEFORE THE HOUSE BANKING COMMITTEE
MARCH 12, 1986

Mr. Chairman, I appreciate having the opportunity to testify this morning on agricultural banking issues. As you know, my colleagues Mr. Levin and Mr. Daschle and I have introduced HR 4241, a bill to allow agricultural banks to amortize farm loan losses over a ten-year period. I want to take a few minutes today to tell you why legislation of this sort is so important to the banks and farmers in south central Illinois and other rural areas.

The farm economy is in a critical state. Last year over 40,000 farmers went out of business, and the Illinois Crop Reporting Service believes we could lose four to five thousand farmers this year in Illinois alone. A record number of banks are on the Federal regulators' problem list, and the FDIC has stated that as many as 150 agricultural banks could fail this year--up from 62, last year's record high.

Many rural areas are feeling the ripple effect of agriculture's hard times. Fifteen of the counties in my district face double-digit unemployment. It is imperative that we act now, before the situation worsens. A bank failure in one of the small towns in my district would greatly increase the risk of foreclosure for those area farmers and small businesses already having a hard time paying off their loans. Stopping the financial erosion on our farms is as vital as stopping soil erosion.

The legislation we have introduced, allowing farm banks to amortize loan losses over a period of ten years, is a measure to give banks and farmers some breathing room to cope with the tight agricultural situation. Farmers do not leave farming, nor do banks foreclose, unless they have exhausted all other options. Agricultural banks have always been strong and solidly capitalized, but because so much of their portfolios are tied in with farming, they are particularly vulnerable to the fluctuations of the agricultural economy.

The problems of the farm sector are due to a unique combination of financial pressures. A dramatic drop in farm land values reduced the collateral value of many loans, while high interest rates and low crop prices have eroded farmers' ability to keep up with their payments. Non-performing loans reported at agricultural banks are still trending upward, and all signs indicate that rural lenders and their customers will face continued difficulties this year.

We have the first hint of an improvement in the agricultural picture with the news that farm land values may have bottomed out and begun to stabilize. But farm exports, interest rates, and farm profitability won't turn around overnight--and farmers need capital to get their crops in the ground over the next few months. Credit decisions must be made now.

Our legislation is simple and straightforward. The amortization option will facilitate banks' cleaning up their portfolios by going ahead and charging off loans when that is warranted. Under current law, which requires that loan losses be taken in one year, agricultural banks could face a large reduction in their bank capital. This would substantially weaken their ability to sustain even their good borrowers. By allowing banks to take losses over ten years, we can improve their chance for survival and their ability to work with troubled borrowers. The second part of the bill, which allows ag banks to amortize losses on farmland they have acquired, should help stabilize land values and help banks manage the devalued land they now hold.

I won't take the time to go into the details of this legislation right now. What's important is that there is a groundswell of support for a loan loss deferral program. The Independent Bankers, the American Bankers, and the Farm Bureau support this proposal, and even the FDIC has now indicated its willingness to give it serious consideration. This bill won't solve the farm crisis, but it will provide needed transitional assistance to keep rural credit available, keep farmers farming, and give the small communities that depend on ag banks some stability.

Farm credit is going to get very tight very soon. Already FmHA officials in many states, including Illinois, have more credit requests than they can handle. I believe that we must take full advantage of the credit provisions of the 1985 Farm Bill, including the new interest rate reduction program. But commercial banks, which have neither the FmHA's government backing, nor the new flexibility we made available to the Farm Credit System last fall, will still find it hard to make ends meet and service their farmers this year. Given the tight federal budget situation, the ability to amortize agricultural loan losses will be particularly important to banks making lending decisions this spring.

Our legislation provides temporary relief for farm banks. It is a regulatory adjustment which offers agricultural lenders a chance for self-help. It costs nothing. I believe this legislation represents an important component of efforts to keep our agricultural banks and their customers in business. I appreciate the Committee's giving this issue high priority. Thank you very much, Mr. Chairman.

Chairman St Germain. Now, Mr. Daschle.

STATEMENT OF HON. THOMAS A. DASCHLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Daschle. Thank you. I want to particularly commend both you and the ranking Member for your statements as introductions to the hearing this morning, outlining the severe problem we have in agricultural lending. There has been a dramatic decline in farm income just in the last couple of years. We have gone from a high of $35 billion reduced last year to $25 billion. Income is expected, according to the Department of Agriculture, to drop as low as $22 billion this year. As a result, debt is up very sharply to $210 billion. This is compounded by farmers' inability to pay, across this country—California, South Dakota, Michigan, the East; $110 billion is held with those who have a debt-to-asset ratio of more than 70 percent.

The impact of all of this and much more is devastating on our agricultural banks, 4,000 banks within the United States have loan portfolios in agriculture greater than 25 percent. One-half of all the bank failures in 1985 were agricultural banks. Fifty-two banks which failed last year were found in a six-State, upper Midwest region; and banks are increasingly having a great difficulty of time dealing with the bad debt that they now hold.

That is basically what we are trying to deal with with H.R. 4241. It simply provides an opportunity for banks to better cope with the statistics that I have mentioned. It provides them with the ability to amortize agricultural losses over a 10-year period of time rather than charging the amount immediately in the year a loan is devalued.

The fundamental problem we have, as Mr. Wylie has mentioned, is income. This bill isn't going to address income. It isn't going to provide a better income to farmers or to banks, but it is going to provide us with an opportunity for breathing room that the bankers must have to cope with the lack of income, to cope with the severe agricultural crisis we have today. It is going to provide a very important tool to allow bankers the ability, not only to survive but to service the debt that's drastically come about as a result of our lost income.

We feel very strongly that this is a tool that ought to enjoy the support of this committee. It has the cosponsorships of Mr. Annunzio, Mr. Hubbard, Mr. Lehman, and many others, who feel very deeply about the need to provide this tool at the very earliest possible date.

So Mr. Chairman, with the assurance that my entire statement will be submitted for the record, I thank you for giving us this opportunity to outline the importance and the need for this bill. And at this time, I would turn the panel over to my colleague and friend, Mr. Levin, who can elaborate further on the need for the legislation.

[The prepared statement of Representative Daschle follows:]

STATEMENT BY CONGRESSMAN TOM DASCHLE
OF SOUTH DAKOTA
PRESENTED TO THE HOUSE BANKING SUBCOMMITTEE ON FINANCIAL INSTITUTIONS, SUPERVISION, REGULATION AND INSURANCE

MARCH 12, 1986

Mr. Chairman, I come before you this morning to thank you and your Committee for the interest you are showing in the serious problems facing the banking industry. I am here today with my colleagues Terry Bruce of Illinois and Sander Levin of Michigan to bring the attention of the Committee to the serious crisis facing agricultural lenders. This agricultural banking crisis is a direct reflection of the farm income dilemma facing family farmers and ranchers nationwide.

As you consider the wide range of banking issues to be addressed in this series of hearings, we ask that the Committee's serious attention be directed to HR4241, the Agricultural Loan Assistance Act of 1986. This legislation, as you may know, is the House of Representative's counterpart to a similar proposal which has been introduced in the Senate by Senator Alan Dixon of Illinois.

We understand that HR4241 cannot solve the fundamental problem facing agricultural lenders. That problem is the income crisis facing our family farmers and ranchers. Unfortunately, this income problem is not expected to disappear as a result of the 1985 Farm Bill. Farm income dropped sharply in 1985, to a level of $25 to $29 billion, and is expected to fall even further this year, reaching $22 to $26 billion. This income crisis helps continue a historical trend of income for family farmers and ranchers. This level is one-fourth less than that of their urban counterparts.

As this Committee considers the agricultural lending crisis, and the response you will provide to the agricultural lenders throughout this nation, I cannot impress upon you the impact that agricultural lending has on a rural state like South Dakota. Nationwide nearly 4000 banks have loan portfolios of 25 percent or more in agricultural lending. This constitutes nearly 28 percent of the total banking population.

House Subcommittee on Financial Institutions

STATEMENT BY CONGRESSMAN SANDER LEVIN

Mr. Chairman, I would like to thank you for the opportunity to testify today on the critical situation in our agriculture sector and the impact on agricultural banks.

The financial plight in our agricultural sector cannot be overemphasized. Since 1981, the effects of an over-valued dollar, high, real interest rates and the dramatic drop in farm land values have created the most depressed agriculture economy in nearly fifty years. As thousands of our farmers across the nation are force to leave the land, the ripple effects of the deterioration of farm income have resulted in the closures of Main Street businesses, banks and farm equipment dealers.

The farm crisis is not just a crisis among farmers, it is a national crisis. Agriculture is the nation's biggest industry and largest employer. I come from a state that has a great deal of agriculture, as well as a predominant industrial sector, and this is true of most industrial States in the Midwest where the suffering in agriculture is the most acute. Today's farm economy is increasingly dependent on, and in turn, vital to agriculture-related industries. Farmers are major purchases of

Chairman St Germain. At this time, we will recognize Mr. Levin.

STATEMENT OF HON. SANDER M. LEVIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Levin. Thank you, Mr. Chairman, Mr. Wylie, members of the subcommittee.

I am proud to be a member of the committee and pleased that today I can sit on this side as you begin. and eventually I hope to join you in considering this important area.

Let me address myself briefly to what I think are three myths about this problem. One is that it is a farm problem. We in the Congress think often too segmentally. Farm problems, urban problems, et cetera, and we forget sometimes the interconnections. Just as the world is becoming more and more interdependent, so has the U.S. economy. I come from a district with one farm in it, but I am persuaded that the district is affected by the farm crisis.

If you take statistics—the interdependence is clear. For example, in 1984 farmers spent $9 billion on tractors, trucks, and machinery. Over 100,000 employees were required to produce this equipment. And where do these employees live? Predominantly not in farm communities. They live in urban and suburban areas. Over 6.5 million tons of steel were used to produce farm-related materials. Where was this steel produced? Primarily by people who live in urban and suburban communities.

Another factor on interdependence. The Northeast-Midwest Coalition set up a Task Force on Agriculture that Tom Ridge and I chair. It was created because the large industrial States in the Midwest and Northeast are also large agricultural States. Michigan is a vivid example. There is an ongoing argument as to which is the largest industry in Michigan: Automobiles or agriculture? The heart of the matter is that they are both huge and whether one is first or second, isn't particularly material.

A second myth that I have heard around these Halls is that there is a moderation of the financial crisis in the agricultural sector. Yesterday I called a gentleman who testified before the House Budget Committee in Lansing just a year ago to ask him how it was going. He was with the Production Credit Association, not a private bank, but the picture in one is related to the other. And I said to him, "Tell me like it is. Don't pull any punches. Is it better or is it worse?"

And here is what Mr. House told me. He is now with the Services Association that has incorporated the Production Credit Association. He says it's worse. The delinquencies have increased fourfold in 1 year. Within the PCA, a year ago, 6.1 percent of the borrowers were in a collection status. That's now gone up to 8 percent within this area.

Let me mention briefly and lastly, a third myth that is often heard in this country. And that is, that what we are seeing in the farm area is the survival of the most efficient. I don't believe that is true. A year ago, I went to South Dakota and Nebraska, as well as touring the thumb of Michigan to look at agricultural conditions. Mr. Chairman and members of the subcommittee, it is clear, anecdotally, and it is also clear from the statistics, that this crunch is not just squeezing out the inefficient. This crunch is increasingly squeezing out the middle farmers—often the most efficient farmers who in some cases became overextended several years ago. Farmers, who in terms of efficiency of operation, represent the lifeblood of competent farming within America.

The gentleman I talked with yesterday reinforced this, and he has no ax to grind. He referred to a Battelle study of a few years ago that was sought and paid for by the National PCA on their 50th anniversary. They asked the Battelle Institute to look at the pattern of American farming and farmers in this country. It was called Project 2000. Here's what they found, and what I saw in South Dakota and Nebraska and the thumb of Michigan.

The small part-time farmer is surviving, because that farmer has income off of the farm. The farmer with large assets and huge operations is going to survive.

It is the middle range that is in jeopardy, and it seems to me we in this country have to ask ourselves honestly this question:

Because of the high value of the dollar, over which these middle farmers had little control, because the bottom fell out of markets through practices and production in other countries, whether it is Argentina, Brazil, or the like, because of other policies and programs over which they had little or no control, should the middle-range farmers sink through this credit crunch?

I am not in favor of blind Federal programs that bail out anybody who is in trouble, but I am in favor of this subcommittee's effort to confront the hard core question of whether, when middle-range farmers are in credit trouble throughout this country, we should extend any help to bridge them, any help whatsoever?

I think that the answer is "yes," reasonably, effectively and in a measured way. H.R. 4241 attempts to do that.

I would like to close by suggesting that if this Congress looks the other way, if it follows the pattern that is coming out of the White House, them we are going to see a lot of land turned over and, as critically, a lot of efficient farmers go under who want to farm. I think for the future of the quantity of output and the quality of life in this country that we should provide them an opportunity to continue their life pursuits.

[The prepared statement of Representative Levin follows:]

The economic chaos caused by the farm income crisis has received national attention in many respects. What has not been so visible is the stress this economic crisis has forced on rural bankers, the very foundation of many small communities throughout the country. Because of the credit-intensive nature of agriculture, many farmers and ranchers know their bankers as their closest friends. It should not come as a great surprise to the members of this committee that rural bank problems have accelerated in recent years. Of the 120 banks which failed in 1985, 62 were banks heavy in agricultural portfolios. Fifty-two of these agricultural banks were located in a six-state area in the Midwest.

The reasons for these failures are clear. The farm income crisis has created problems for family farmers and ranchers. This crisis has extended to rural banks which have realized 1984 net income after taxes of 9 percent of equity capital. This compares to a 13 to 16 percent range during the early 1970's and early 1980's.

In South Dakota, the problems facing agricultural lenders is all the more prevalent. Nearly one-half of South Dakota's 135 banks have loan portfolios that are greater than 60 percent in agricultural loans. When agriculture faces a crisis, this income crisis has economy-wide ramifications.

We understand the limitations on this committee in addressing the the fundamental problem facing the rural economy--declining agricultural income. We do, however, want to stress the role that HR4241 can play during this emergency crisis. This legislation will provide agricultural bankers with the best possible "self-help" tool, by providing bankers with the regulatory flexibility to restructure unproductive loans. HR4121 will permit agricultural lenders to amortize over a maximum period of 10 years any loan losses charged off by a lender in restructuring a borrower's loan portfolio and as well as losses resulting from the reduced value of agricultural property.

There are a number of other possibilities at the disposal of this Committee to deal with the agricultural lending crisis. Few, however, are as feasible as HR4241 when considered in the budget light through which all proposals must be viewed. As a member of the House Agriculture Committee, I stand ready to work with members of this Committee to seek a solution to this serious lending crisis.

motor vehicle and machinery equipment, petroleum, steel and rubber. Our Northeast states have not been immune to the current financial crisis in agriculture either. It was recently estimated that 29 percent of New York's 25,000 farmers might go out of business in the next five years as this region faces the mounting problems that have in the past been concentrated in the Corn Belt. Quite simply, if farmers go broke, they do not buy equipment that is made by our workers in the cities and towns.

The problems threatening the existence of a significant percentage of farms also threaten a growing number of agriculture-related banks. Farmers now owe $215 billion and this means that low commodity prices that farmers are receiving make it more and more difficult for them to service that debt. There are 4000 banks with 25 percent or more of their loan portfolio in farm loans, and these banks hold about $113 billion in total assets and nearly $26 billion total in farm loans (about 1/2 of all farm loans held at commercial banks). The FDIC in a report published last month stated that agricultural bank failures as a percent of total commercial bank failures have grown from 20 percent in 1982 to over 50 percent last year. And they assert that if there is continued growth in loan problems and in the agricultural sector, farm-bank problems and failures will at least continue at levels equal to 1985.

Increasingly, agricultural banks are confronting more and more loan losses, which seriously eat away at their capital structure. Continued reductions in a bank's capital correspondingly reduce the total capacity of the bank to extend credit and the size of the loans the bank can make. In 1984, agricultural production loan losses charged off by commercial banks totalled $900 million--an increase from $436 million in 1983. Charge-offs for the first two quarters of 1985 were $520 million--nearly double the $280 million charged off in the first two quarters of 1984.

I have joined with Congressmen Bruce and Daschle in the introduction of legislation aimed at providing the incentives and flexibility for farmers and lenders to work together during this current period of economic turmoil. The heart of the legislation permits banks to negotiate with farmers on appropriate debt restructuring, restructuring that will leave farmers with payments they can meet while providing banks with greater returns than foreclosure would. The banks will be allowed to write down loans from their book value to their fair market value and amortize the loss over a ten-year period. Current banking regulations require the entire loss to be written-off by the lender in the year in which the loss was incurred. Allowing multi-year amortization of loan losses will give the farmer a chance to deal with his financial situation, allow he bank to retain customers, while avoiding major losses for b nks and the resultant capital erosion that foreclosures would b ing.

Mr. Chairman, the problems in agriculture are c mplex. We need to expand our exports, to bring interest rates down, and to promote the opportunities for our farmers to make a profit. Credit cannot be the answer for income, which is at the center of the financial crisis in our farmland. However, the legislation we've introduced will provide farmers and their len ers transitional assistance while we pursue more long-te m solutions to the problems in agriculture.

Chairman St Germain. Thank you.

Now, we will hear from our colleague, and also a member of the full committee, Mr. Bereuter.

STATEMENT OF HON. DOUG BEREUTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. Bereuter. Thank you very much, Mr. Chairman, and thank you for holding these hearings today on the financial conditions of banks and other depository institutions that are in agricultural portions of the country.

As a member of the subcommittee, I have asked for time because my congressional district is certainly one of those suffering from the most severe agricultural depression since the 1930's.

What I hope to do today is just give a few comments from my prepared statement and then speak extemporaneously in light of what has happened in the last 2 days in the posture taken by the regulatory agencies.

I think it is important to emphasize that the regulatory agencies have, perhaps belatedly, come to understand there are increasingly large problems in the solvency of the lending institutions that they regulate, in the Grain Belt in particular.

When we consider the magnitude of our agricultural debt problems today, we have a financial crisis rivaling that of the Third World or Latin America. Some estimate that $50 billion of the nearly $210 billion in agriculture debt in this country is perhaps uncollectible.

The record $2.5 billion loss of the Farm Credit System last year is indicative of what we may see in the future.

We took some action in this Congress last year to deal with the problems of the agriculture credit system, and at that time we had some assurances in the Congress and in the administration that we would look at the difficulties of the commercial agricultural banks as soon as possible this year, and I am pleased to see that we are proceeding on that track.

During the last year, I have been working closely with agricultural bankers in the whole Great Plains area, with banking associations such as the ABA, the IBAA, and farm organizations on legislative solutions to our financial debt crisis in that part of the country.

In January of this year, the IBAA-ABA Task Force on Agriculture, meeting in Dallas, issued a report outlining several recommendations for relieving the financial stress of commercial agricultural banks and their borrowers.

In general, their report emphasized the need to stabilize bank capital, agricultural borrowers, and farm real estate values.

More specifically, some of their recommendations included, importantly, these five points:

First, a change in the regulatory accounting procedure to enable banks to amortize their loan losses over a multiyear period.

Second, maintenance of bank capital through the use of capital certificates similar to the net worth certificate used for certain thrift institutions.

Third, a continuation of the current Tax Code provisions which allow banks to carry net operating losses back 10 years, and I might say that is in contrast to what the House did in the tax reform legislation we passed in December of last year.

Fourth, expansion of the Farm Home Administration Agricultural Loan Guarantee Program.

Fifth, implementation expansion of the $490 million interest rate buydown program that was a part of the farm bill, the 1985 farm bill that the Congress enacted in late 1985.

I would like to have that report of those two major organizations made a part of the record with my statement today, Mr. Chairman, and I would like to also emphasize that a large number——

Chairman St Germain. Without objection, it will be placed at the conclusion of your testimony.

Mr. Bereuter. Thank you.

A large number of farm organizations have already acted to endorse that recommendation; specifically, the American Farm Bureau Federation. I know of no opposition at this point among farm organizations to those recommendations.

I have introduced four bills specifically related to those recommendations. I will mention just two of them briefly today.

H.R. 4178 establishes a temporary procedure to allow the agricultural banks to restructure their loan over a 10-year period.

The second bill, H.R. 1559, would extend for 3 years the net worth certificate program now available to thrift institutions. Mr. Hubbard, Mr. Wortley, and I are original cosponsors of that legislation.

I think it is important that the Congress and the regulatory agencies act together to encourage rather than to hinder the ability of both banks and borrowers to reach workable solutions to their debt problems without sacrificing the financial integrity of the banking system in this country.

Now, let me say that I think that what will be done in this subcommittee, in this House, in this Congress in the next several months, and I think really within the next 6 weeks, will determine what happens to whole regions of the country.

I would like to depart from the outline of my statement now and speak extemporaneously in light of what has happened yesterday in testimony presented to the other body and in a joint statement by the three major banking regulatory agencies, where indeed they have taken a number of steps upon prompting from Secretary Gould under the leadership of Secretary Baker to make some of these changes administratively, changes that have been long sought.

In the Grain Belt today, particularly the western Grain Belt where we have severely distressed conditions, there is no prospect for a significant recovery in agriculture in the next several years. We have unprecedented supplies of grain in the world and in the United States.

And so when you look at the banking structure of these States you have to recognize that they are all agricultural banking institutions. Even by most people's definition, from the largest bank in Des Moines or Omaha right down to the small city, small community bank, those are agricultural banks.

They today do not have the flexibility, the capital to act in the fashion that they have acted in the past, that is as the primary financial institution to stimulate a diversification of the economy and to stimulate the economy generally.

So we have a whole region of the country that is in a situation of deep distress.

And now with the falling crude oil prices, those agricultural banks in Kansas and Oklahoma and west Texas have their situation further aggravated.

The regulators say to this committee and to the Congress, we would rather not have special treatment written into law for these agricultural banks. Yet I would say they have been very, very slow in responding to the particular problems of these agricultural banking institutions, basically the banking institutions of these whole western Grain Belt States.

I think it is important that we move this legislation forward, to continue to stress to the regulators that we have to have substantial changes, not just to help these banks. Certainly, 15 have closed in my State in the last year and 22 in recent months.

But what we have at stake here is the future of this whole part of the country. Without some relief to these banks, we are not going to have the diversification and the stimulation of our economy necessary to cope with the agricultural difficulties that will be with us for the next several years.

So, Mr. Chairman, members of the subcommittee, I ask for your consideration and favorable action on the comments made here today by my colleagues and myself, and I thank you for this opportunity to express myself to the subcommittee.

[The prepared statement of Representative Bereuter follows:]

Statement by the Honorable Doug Bereuter
before the
House Financial Institutions Banking Subcommittee
March 12, 1986

Mr. Chairman, I wish to thank you for holding this subcommittee hearing today on the finanical condition of banks and other depository institutions. As a member of this subcommittee I have requested time to testify because my congressional district in Nebraska continues to suffer from one of the most severe agricultural depressions since the 1930's.

Over the past several years, farm income has steadily declined due a number of factors which farmers have had no control--high interest rates, the high value of the dollar, low commodity prices increased foreign production and the weather to name only a few. With the decline in farm income, there has been a steady increase in the volume of farm debt and the inability of farmers to adequately service it. Coupled with the precipitious decline in the value of the collateral which secures agricultural debt--real estate, machinery and livestock--banking regulatory agencies have become increasingly concerned about the solvency of the lending institutions they regulate.

When we consider the magnitude of our agricultural debt problems today, we have a financial crisis rivaling that of the Third World or Latin America. Some estimate that $50 billion of the nearly $210 billion in agricultural debt is perhaps uncollectable. The record $2.5 billion loss of the FCS last year is indicative of what we may see in the future.

In my state of Nebraska, the FCS and commercial banks wrote off over $750 million worth of uncollectable agricultural loans last year and farm bankruptcies were at an all time high. In 1985, there were approximately 120 banks failures in the U.S. Fifteen of these banks were commercial agricultural bnks in Nebraska alone.

The impact of the agricultural debt crisis has been felt equally by producers, mainstreet businesses and farm lenders in my state. While considerable attention has focused on the debt problems of individuals, we cannot ignore what has happened to commercial agricultural banks; especially those in smaller, rural communities where the local bank is often the primary, if not only, source of credit. Because the loan portfolios of these banks are primarily committed to agriculture loans, their economic well-being is subject to the same hardships and crises that affect farmers.

In the past year, Congress has devoted a considerable amount of time to agricultural issues and legislation. The Emergency Farm Credit legislation of last year, the 1985 Farm Bill, and the Farm Credit

Amendments Act were all designed to address specific farm credit problems; yet none were either complete, or comprehensive solutions.

In December of last year, Congress passed legislation designed to restructure the Farm Credit System and provide it with certain lines of emergency credit from the Federal government. While this legislation was needed to prevent the Farm Credit System from collapsing, I and many other members with farm constituencies were disappointed that this legislative opportunity did not go further to address the problems of commercial banks and the farmers and ranchers who borrow from them.

To speed the passage of the Farm Credit System legislation, assurances were given to the Banking Committees of both the House and the Senate that additional credit legislation pertaining to commercial agricultural banks and their borrowers would be given a high priority this year. This hearing is an important first step in developing that legislation.

During the past year, I have worked closely with the agricultural bankers, banking associations such as the A.B.A. and the I.B.A.A. and farm organizations for a legislative solution to our financial debt crisis.

In January of this year, a joint A.B.A./I.B.A.A. task force on agricultural credit issued a report outlining several recommendations for relieving the financial stress on commercial agricultural banks and their borrowers. In general, their report stressed the need to stabilize bank capital, agricultural borrowers and farm real estate values. More specifically, some of their recommendations included:

1. A change in regulatory accounting procedures to enable banks to amortize their loan losses over a multiyear period.

2. Maintenance of bank capital through the use of capital certificates similar to the net worth certificates used for certain thrift institutions.

3. A continuation of the current tax code provisions which allow banks to carry net operating losses back ten years.

4. Expansion of the Farmers Home Administration (FmHA) agricultural loan guarantee authority.

5. Implementation and expansion of the $490 million interest rate buy-down program included in the 1985 Farm Bill.

The A.B.A./I.B.A.A. report, which I would like to include for the record, contains other recommendations, but the ones I have mentioned could be implemented relatively soon with little cost to the Federal government.

I would also point out that the American Farm Bureau Federation, this country's largest farm organization, has endorsed debt restructuring proposals which incorporate many of the principles outlined in the loss deferral and amortization recommendations of the A.B.A./I.B.A.A. Task Force.

From the standpoint of the regulators, the FDIC issued a report in February of this year analyzing many of the same loss deferral and net worth certificate proposals outlined by the A.B.A./I.B.A.A. Task Force. The FDIC report concluded that both were viable options for stabilizing the capital structure of agricultural banks; preferably, in the opinion of the FDIC, a loan deferral program amortizing losses over a multiyear period. However, the FDIC also concluded that a net worth certificate program could accomplish the same result of either stabilizing or increasing bank capital, and that such a program could possibly incorporate many of the features of a multiyear loss deferral program.

At this point, it is important to note that regulatory agencies could possibly proceed under existing authority to implement these proposals. I was told yesterday that the Office of the Comptroller of the Currency and the FDIC testified before the Senate Banking Committee that regulatory actions will be taken to partially initiate some of the proposals I have mentioned. While I welcome their intiatives, I question whether they go far enough or fast enough to assist either banks, or farm borrowers.

Using both the A.B.A./I.B.A.A. recommendations and the FDIC report as a blueprint for action, I have introduced legislation which I hope this Subcommittee will take into consideration. One of the bills, H.R. 4178, establishes a temporary procedure to allow agricultural banks to restructure their loans over a ten-year period. This bill provides a three-year period beginning in January of 1985 in which a bank can reappraise the value of its loan portfolio and a ten-year period in which in can amortize losses rather than writing them off during the current year. I would like to include for the record a copy of a letter that I have recieved from the I.B.A.A. in support of this legislation.

A second bill, H.R. 1559, would not only extend for three years the net worth certificate program now available to thrift institutions, but it would also make agricultural banks--those banks with 20 percent of their loans in agriculture--eligible to receive "net worth" or capital assistance certificates from the FDIC. By exchanging bank promissory notes for the capital certificates, a participating bank will be able to increase its capital accounts to meet necessary minimum requirements.

Both of these bills are designed to help agricultural banks increase, or at least maintain, the levels of capital required by regulatory agencies. This assistance will directly help not only banks, but also farm borrowers from those banks.

The current credit crisis is not only one of financial stress, but also great emotional tension between borrowers and banks, and banks and their regulators. These farm/bank credit proposals strive to get the monkey off of everyone's back. By permitting banks to recognize and amortize portions of existing debt, farmers are able to both reduce their debt and increase their ability to cashflow and service their remaining debt. In reappraising farm loans, commercial banks can realistically assign current values to the collateral securing these loans without fear that they will be classified by bank regulators. And, in stabilizing bank capital, regulatory agencies strengthen commercial agricultural banks and lessen the likelihood that they will be closed.

By working together, both Congress and the regulatory agencies will encourage, rather than hinder, the ability of both banks and borrowers to reach workable solutions to their debt problems without sacrificing the financial integrity of the banking system in this country. This will contribute to a stronger healthier future for both agriculture and banking in this country.

When I talk with the farmers in my district, they realize that the agricultural policy of this country is not embodied in just a multi-year Farm Bill. Our agricultural crisis must be addressed on all policy levels of the Federal government including banking and monetary policy. What we in the Banking Committee do to change this policy will have as great an impact on the future of agriculture as any Farm Bill ever passed by Congress.

Mr. Chairman, what this committee does in the next few weeks will determine the future of not only commercial banks, but the farmers and agribusinesses in my state and the financially troubled prairie states of our nation. We can no longer deny what is obvious--that a large portion of the agricultural debt today is not serviceable and will not be repaid. Neither can we abdicate our responsibilty in Congress by wishfully hoping for a turnaround in the agricultural economy. The immediate future does not appear bright; we have waited too long already. We have lost too many farmers and too many banks to delay further. If we do not act soon to stop the financial deterioration of both farmers and farm banks, we will certainly lose more.

Mr. Chairman, I appreciate your interest in these problems, and I look forward to working with you to report legislation from this subcommittee. If you have questions, I would be happy to answer them for you. Thank you.

Chairman St Germain. Thank you, Mr. Bereuter. I am going to ask two questions of this panel.

Your bills tend to focus on authorizing the FDIC to purchase net worth certificates from agricultural banks and on permitting agricultural banks to write off loan losses over an extended period of time.

None of your bills encourage use of the loan negotiation options permitted by statement 15 of the Financial Accounting Standards Board. This accounting rule, called FASB–15, would enable agricultural banks to renegotiate loans rather than foreclose on them.

[A summary description of statement No. 15 of the Financial Accounting Standards Board (FASB) follows:]

SUMMARY DESCRIPTION OF
STATEMENT NO. 15
OF THE FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)*

FASB Statement No. 15 establishes standards of financial accounting and reporting by debtors and creditors for a troubled debt restructuring. The Statement does not apply to routine changes in debt terms and does not cover accounting for allowances for estimated uncollectible amounts. The provisions of the Statement are generally effective for transactions after December 31, 1977, except that disclosure requirements for creditors are effective for fiscal years ending after December 15, 1977.

Under the Statement, reducing principal or interest payments or extending the scheduled maturities of debt does not mean a gain to the debtor or a loss to the creditor — unless future cash flows (principal and interest combined) are less than the carrying amount of the debt before restructuring. In this case, the difference is an extraordinary gain to the debtor and an ordinary loss to the creditor; neither would recognize interest expense or income, respectively, after the restructuring.

For restructuring agricultural loans, the current regulatory interpretation of FASB No. 15 seems to emphasize the refinancing of loans over a longer period of time and at a lower interest rate, so long as the principal to be repaid is not reduced. To proponents of FASB No. 15 use, its chief virtue is that, from an accounting standpoint, such loans do not have to be classed as non-performing or written off immediately as a loss. For the borrowers, this would be of substantial benefit in comparison to Net Worth Certificate and loss deferral proposals because the latter two require that the loan be written off and an actual loss incurred. Whereas, the FASB No. 15 approach does not require that a loss be booked. It would enable a farmer's debt to be stretched out over a number of years and not require foreclosure.

Until recently, Statement No. 15 was an obscure, little-used provision. A May 1985 OCC directive to national banks encouraging them to consider it has stimulated new interest in its use.

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* The FASB is a private sector organization created in 1973 to establish standards of financial accounting and reporting (GAAP). The FASB consists of a full-time staff, is privately funded, and is recognized by the SEC.

Chairman ST GERMAN. I would like your assessment of FASB-15 and your comments on its potential for easing the farm debt problems. Do you think that it would be a valuable addition to any legislation provided for agricultural bank net worth certificates or loss deferrals?

Second, Mr. Bereuter, you referred to the number of banks that have failed in your State in the past year or so, and I noted that in many instances, these banks that have failed are the only banks in those particular communities.

Now, the administration, in testifying about the problems of agricultural banks, has been careful not to suggest that these failures have totally deprived smaller communities of their only local lender, noting that 40 of 50 failed agricultural banks had been reopened, but of course these reopened banks in many instances have reopened as branches of banks in other areas.

So I would like you to comment on the impact of the closings of these one-town banks on those communities.

That is a two-pronged question, one on FASB-15: Do you feel it would be wise to include that in any legislation we might see fit to adopt? And second, what has the impact been on the communities where these banks have failed?

Mr. BEREUTER. Mr. Chairman.

Chairman ST GERMAIN. Mr. Bereuter.

Mr. BEREUTER. In that order, those tools would be very helpful, indeed. They are recommended by the recent February issued FDIC report on agricultural banks. I myself am drafting legislation to attempt to use those tools. I am strongly in favor of them.

Second, on what happens when the bank is the only financial institution in the community and it closes, there are several things that need to be said about that.

Indeed, most of those banks have reopened as branches, not all of them. I can think of two, maybe three instances in my own State where that was not the case.

There is an immediate problem for the people that have loans with that institution because, as the FDIC attempts to sell that institution to another institution within or without the State, that institution sorts through the loans and they take only the very best of them.

A number of people that have credible agricultural business or farming operations simply do not have a banking home, and with the stress on the Farmers Home Administration, they are often not able to get a loan to help them in that instance either.

The FDIC I think is doing a better job than it did because of the unfortunate train of experience they have had, but I would like to stress that the major problems today are not related to the closing of banks in that State, although that is a terribly wrenching experience for those communities and for those borrowers.

The major problem is that the flexibility and available capital reserves are so decreased in the whole banking structure of the State that they have no opportunity or inducement to help agricultural businesses and others diversify the State's economy. Their lending policies necessarily have to become so conservative that there is no opportunity to help the State bring itself out of this tailspin.

So it is a much larger problem than the problem created in the individual community.

Chairman ST GERMAIN. Mr. Daschle.

Mr. DASCHLE. Mr. Chairman, I would just add to that. I look at FASB–15 as another tool in the toolbox. I think that most bankers in order to provide the maximum amount of financial service to people in distress right now are going to need a whole range of tools in that toolbox to fit the need.

Sometimes it could be FASB–15. Sometimes it is going to have to be something like we are offering in H.R. 4241. Sometimes it may be something else.

But clearly, unless these bankers have this broad range of tools in that toolbox with which to cope with this situation, I fear that we are going to see a greater attrition in farm banking communities than we have ever seen before. The attrition is going to have devastating impacts not only on the financial condition of many of these farmers but the demographic and sociological conditions as well.

Clearly, most of these towns exist because they are the financial center of that area. When it ceases to become the financial center, it ceases to have the importance sociologically that it must have to continue to be a viable entity in the future. When that ceases, it ceases to become a community as we know it today, and the whole social fabric in rural America is going to change for good.

So clearly this is very important to us, and I would strongly urge the committee to accept that as an additional tool.

Mr. LEVIN. Mr. Chairman, briefly on your second question, a year ago I talked with a relatively small bank in Frankenmuth, MI, a small community like the communities you referred to earlier, and we asked them to give us some typical financial statements of their farmer-borrowers anonymously. They sent them back to us with these comments:

> These statements are from third generation farmers, not land speculators.
>
> Second, in no way can their plight be said to be all of their own doing * * *.
>
> If they go under, this would not only be a severe setback to our agricultural community, but it would have serious ripple effects.

And then they address the point that you were referring to:

> We recognize our responsibilities to the regulatory authorities. We recognize our responsibilities to our shareholders. We also recognize our responsibilities to our communities, the communities we serve, and the farmers have been and still are pillars of these communities.

And then it goes on to add:

> Whatever solution is found we are willing to bear part of the costs.

Well, Mr. Chairman, it is my understanding this bank, because of financial pressures, has sold out to a large banking organization, and I am not sure that this branch—it is now a branch—will be less sensitive to the needs of the community now as part of a large institution than when they were a separate, freestanding organization.

I have some concerns that there may be less sensitivity, but whether they are less sensitive or not because they are rooted in a larger organization than a smaller community, unless this branch, as part of a larger entity, has the tools to work with, as Mr.

Daschle and Mr. Bereuter have said, sensitivity alone will not allow them to respond to the legitimate needs of the people who have borrowed from them.

Chairman St Germain. Thank you.

Mr. Lehman.

Mr. Lehman. Thank you, Mr. Chairman. I want to commend each of my colleagues for very excellent statements.

I especially appreciated Mr. Levin's. Coming from an urban area, I think he showed quite a bit of knowledge of this and understands the interconnections here.

I just have a couple of questions. One, I note that in the Bruce bill the relief is tailored to those banks that are defined as agricultural banks, and I guess an agricultural bank is a bank that has 20 percent of its portfolio in agricultural loans.

Our problem in California is that we don't have very many agricultural banks. Most of our banks are much more diversified, but they all have tremendous problems in their agricultural component, and most of them are backing off of agricultural loans because of that.

So under this proposal they would not get relief, and hence won't be making loans in that area.

I wondered if the definition of agricultural banks was sufficient to cover all of the problems in your region.

Care to comment?

Are most of the banks in the Midwest that are in trouble, they are in trouble to the degree that they are invested in agriculture?

Mr. Daschle. In South Dakota, I would say that, clearly, this bill would deal with the necessary complications that we now see in the financial community stemming from the agricultural losses. Sixty percent of our banks in South Dakota have agricultural portfolios of 50 percent or greater.

So, clearly, we are a very agriculturally inclined financial community. Our legislation would deal with that effectively. Obviously, if we, in the scope of what we are trying to confront here, cannot address the needs of California or some of the other States effectively, we would certainly be open to some constructive correction here.

But, from the needs of those of us in the Upper Midwest, I think this legislation deals with it very effectively.

Mr. Levin. Just briefly, I believe, in Michigan, the defintion would be adequate though. We ought to doublecheck. Because of the historical limits which were very rigid until recently on branch banking, on statewide banking, et cetera, there tended to involve in Michigan, like many other States, a rather rigorous separation between bank institutions in urban and suburban communities in rural Michigan.

That line began to blur some years ago. So I think it would be wise to recheck it as it applies to Michigan. But it seems to me, in any event, that this bill should have more universal application.

So we should take a look at it from the point of view of California as well as the Midwest.

Mr. Bereuter. If I might respond, you are right in raising the concern you have raised. I introduced legislation that was also introduced later by Mr. Bruce. And it does not meet the problems of all of the agricultural banks as we would think of them. But, its particularly lacking in appropriateness for the California banks, for example.

So, as a result of the report coming from the FDIC in February and result of my effort to go back to bankers and try to cope with this problem—visiting, for example, with the Bank America people in California—I introduced H.R. 4289 on March 3.

And its provisions are not limited, therefore, to any definition, traditional definition of agricultural bank, 20 percent of the loan portfolio.

It has five provisions. It permits the loss right off of up to 30 percent for qualified agricultural loan borrowers, and defines those borrowers. It doesn't matter how many there are in the bank. It permits participation by qualified institutions for up to 5 percent of their total assets.

There is a 3-year extension of the net worth certificate as a part of that bill. It applies it to certain types of institutions defined by section 206 under the Garn-St Germain Depository Institution Act of 1982.

And it permits banks having a net worth taking into account any qualified loss equal to 5 percent or less, but greater than 3 percent, to participate.

So it's an effort to deal with the problems of agricultural banks even though they don't meet the traditional definition of 20 percent of their loan portfolio in agriculture, agricultural business.

So I think, frankly, it's an improvement on my earlier legislation and it comes as a result of the FDIC's suggestions and bankers across the country.

Mr. Daschle. I might also add that H.R. 4241 deals directly with the definition of an agricultural bank and hopes to clarify it somewhat by giving greater flexibility to the appropriate Federal banking agency to determine which bank may be heavily involved or involved to any extent in agricultural lending for purposes of this bill.

So there is a great deal of flexibility in interpretation here beyond, as Mr. Bereuter has mentioned, the traditional definition of what agricultural portfolios must be.

Mr. Lehman. Thank you, Mr. Chairman. Can I just ask one more question? Or do you want to come back?

Just a comment on we are seeing a decline in interest rates right now, and has the decline that we are seeing in home mortgages and some commercial lendings gone over into the agricultural sector as far as those loans are concerned? And is it having any effect?

Mr. Daschle. In South Dakota, so far, it has not. Lending rates are——

Chairman St Germain. Could we try to be a little brief with this reply, so we could move on to others?

Mr. Daschle. Yes; rates are still quite high.

Chairman St Germain. Mr. Wylie.

Mr. Wylie. Thank you, Mr. Chairman. And I, too, want to compliment the panel for its testimony. It's been most impressive. And, obviously, you are all very knowledgeable on this subject.

The hearings are especially timely for me because the representatives of the Ohio Farm Bureau Federation were just in my office before I came down here, and incidentally they endorsed your two-tiered bill, Doug. Would you explain just exactly how your two-tiered loan deferral plan works? And relate that to the Bruce-Daschle bill? Are they all the same?

Mr. BEREUTER. Mr. Wylie, they perhaps are not the same. My response a few minutes ago did not refer to it as the two-tiered bill. But they perhaps are referring to H.R. 4289, which I introduced on March 3 in response to a concern expressed that limiting assistance to banks as agricultural banks as traditionally defined is not adequate to help a number of the institutions that really deserve to be helped.

And as we have a diversification of their loan portfolio, something we certainly should encourage, they may lose their status as an agricultural bank.

So my bill does permit, as I said, loan loss writeoffs up to 30 percent for qualified agricultural loans. It requires in short that qualified institutions may participate up to 5 percent of their loan portfolio, even if they do not meet the traditional definition.

It requires some action on the bank to write off. It permits an opportunity to extend it over a longer period of time.

And as a part of my testimony I covered this earlier, so it will be a part of the written statement. But they are referring to, I believe, H.R. 4289.

Mr. DASCHLE. Mr. Wylie, I think our legislation is probably complementary. Our bill does two things, and that might be where the two-tiered system comes in.

The first part of our bill allows agricultural banks to write down agricultural loans from their book value to their fair market value.

The second part of the bill permits eligible banks to amortize their losses on the reduced value of farmland that they acquire in the process of handling an agricultural loan.

Mr. WYLIE. Thank you.

The problem that I have with legislation as far as agricultural banks are concerned is that once fixed in statutory law it becomes almost permanent in nature; whereas, regulatory assistance does not have these permanent attributes.

And as I say, I have a problem because what about the banks that are heavily involved in energy loans right now? We are hearing from Texas and Oklahoma and Louisiana. And what about banks involved heavily in foreign and international loans?

Should we also include them in some sort of a statutory provision like this? Or where do we draw the line? Or, are ag banks special, so that they do deserve special treatment.

Mr. Bereuter.

Mr. BEREUTER. I do believe they deserve special assistance because, at least for one thing, the monetary policy that was practiced in the last two-thirds of 1981 and the first half of 1980 in an effort to win the war against inflation may have been successful in that respect.

But, the primary casualties, indeed, fatalities, fatalities that are still happening on a slow death basis, are the result of that same action of the Federal Reserve Board.

Those incredible declines in the value of agricultural real estate that resulted are the basic reasons why these agricultural banks are in the difficulty they are, and their borrowers are in the difficulty they are.

And so I think there is a special reason why the Federal Government, acting through the Congress, should address this problem. The basic problem—there are many causes—but the basic problem was a problem in monetary policy, which was brought to bear on this part of the country, on these kinds of agriculture credit institutions and their borrowers.

Mr. DASCHLE. I might also add that this is a technique already in use to a certain extent in the savings and loan industry.

Mr. LEVIN. Yes; this reminds me a bit of the arguments over trade legislation.

I suppose executive action initiated promptly in some of these complicated areas is arguably preferrable. But, so far, we haven't seen that action.

And what is Congress going to do? I don't think we want to respond by saying, well, executive action is more flexible so we will do nothing.

Mr. LEHMAN. Well, we certainly need our farmers to produce food, and maybe they are special, and I do thank you for your testimony.

Chairman ST GERMAIN. Mr. Vento.

Mr. VENTO. Thank you, Mr. Chairman. I want to commend my colleagues for their work. I mean, this is an area that really needs to be explored. I think they have been prolific in producing some bills and looking for solutions.

Apparently, the preferred solution boils down to a stretchout of the debt in terms of how the accounting system works, and I understand. I have been reading over the information that you provided in your testimony.

I guess the point of this is, and I will just ask Congressman Levin and others to comment if they wish, but this is intended to keep these institutions in the position where they can continue to grant credit.

I guess you intend to stretch that over 10 years. It could be a little more or a little less. But I expect that that makes it workable and that's why it's there.

But if you stretch that out in that manner, what relative position does that put the financial institution in in those outyears?

I mean, we know that with the net worth certificate, if they take the loss and they get the gain, that's about 3 or 4 years, depending on how long they last, what the maturity of a net worth certificate is.

But what position would this put them in if they were carrying this debt over that period? Wouldn't they be in a position where they would not be able to absorb as much debt?

Mr. LEVIN. Well, the 10-year period was used because it seems to balance those needs. And I am not sure, and we will hear from the regulators, whether in their judgment it meets the test.

It's a period of reason, as you have implied. If there isn't a stretchout it won't accomplish the purpose.

And let me just give an estimate that was provided me yesterday comparing 1986 with 1985 in the western Michigan area.

The suggestion was, and it's just a guess but I think an educated guess, that while only 5 percent of the farmers weren't able to receive credit for operations, seeds, and so forth, in 1985, that figure will go up to 15 percent in 1986.

And so a stretchout is essential if the bank is going to be placed in a position where working with farmers it can provide this credit for spring planting.

I would hope that the committee could receive information in detail as to the 10-year period. I don't think that figure is sacred. But we have to find a figure that gives the bank enough flexibility to provide more credit, but doesn't stretch it out so long that it places it in jeopardy over the longer period of time.

Mr. VENTO. Yes; I guess there are a lot of questions with regards to that. But that's the point. Obviously, it's the intent, but I mean I think there's the risk that if you take the loss or you get the net worth certificate, you write it off as a loss. And you have a renewed balance and credit.

We are all going to have to examine this very carefully, but the key point is what does this do to the ability to attract investment and deposits to the long-term stability.

And, ultimately, whether or not if they stretch these debts out, does that really mean that they are limited in the amount of credit that they can offer certainly in the near-term and for the 9-year period.

You know, I just want to pose that question. You have done good work. I feel I should be down there helping you answer it rather than asking you tough questions.

Mr. DASCHLE. I would like to address that for just a second if I could. I think it's a matter of when he's going to be most adversely affected.

Let's take an example where a farmer has a loan of $100,000, and a bank regulator classifies the loan so that $30,000 of the loan has to be recognized by the bank as bad debt in 1986.

Well, without the bill, the bank is going to have to charge off $30,000 in one year. Now that's going to adversely effect on his investors. It's going to adversely effect on his condition as of the end of that year.

But if he could write that off over a period of 10 years, from 1986 to 1996, it simply has to enhance his financial condition.

It's a matter of degree. Can he take a smaller amount of debt, amortize it over 10 years? Or does he have to take it all in one big chunk? Most bankers will say they'd much rather take it over that 10-year period.

Mr. VENTO. Well, I understand. I appreciate the gentleman's comments. My time has expired, but I want to work with you. Thank you.

Mr. BEREUTER. Mr. Chairman, may I comment in response to that? It is not perfect but the banking organizations themselves came together and said, politically, this is achievable. Ten years is practical.

Chairman ST GERMAIN. Mr. LaFalce.

[No response.]

Chairman **St Germain**. Ms. Oakar.

Ms. **Oakar**. Mr. Chairman, I don't have any questions. I just want to compliment my colleagues, who have worked an awful lot on this. It's certainly a crisis situation that ought to be addressed.

Chairman **St Germain**. Mr. Leach.

Mr. **Leach**. I would like to join the chorus of complimentors.

As contained in both the Daschle bill and the Bereuter bill, at least H.R. 4168, the principle of writing off loan losses over a period of time is something this committee is going to have to seriously consider. I think it's proper and reasonable.

But then there's a second provision which calls for allocating losses and collateral over a period of time. At first instance, that seems good for the bank. But we have to recall, our first concern is the problem in the farm economy, not the stockholder.

One of the problems implicit in the writeoff approach of collateral is that it will give banks incentives to foreclose and to maintain foreclosed land in the bank's portfolio.

Now we all know that we don't want to put more land in the market in one sense because that causes prices to come down. On the other hand, there is a greater harm perhaps in seeing an incentive for foreclosure and an incentive for financial institutions to own more farm real estate.

In my State of Iowa, this is becoming a scandal. We have got a quarter of a million acres of land owned by financial institutions as of last month.

It's one thing to write off loan losses, another to write off collateral. I would hope that, as this committee proceeds, that it consider that issue very seriously. I would appreciate any comments you might have to the contrary.

Mr. **Vento**. Well, I think you've hit on perhaps one of the most sensitive areas of this whole bill. I applaud you for doing so, because it is clearly not our intent to encourage the continued consolidation of land portfolios within each lending institution.

Somehow we are going to have to contain that. But, on the other hand, we are very concerned about the continued downward pressure that there is on land values right now. The accelerated pressure that continues to exist because banks are forced almost to sell that land as soon as it's taken over.

So we don't want that to happen. But, at the same time, we don't want this consolidation to occur either. To the extent that we can regulate that through legislation, improving this provision of the bill, we certainly would support any effort to do so.

Mr. **Levin**. I would just comment very briefly. We should look at this, and I don't pretend that I have had a full opportunity to hear all the testimony; we're just receiving it.

But I was talking to a farmer 40 miles outside of Detroit over the weekend. For the banks that want to exploit the deflation that is going on in land values—and this is just 40 miles from Detroit, let alone in Iowa and Nebraska and South Dakota—I think you had better understand that it's very much a two-edged sword.

They may end up with a lot more land worth a lot less. Now maybe banks are figuring otherwise and figure this is the time to accumulate. But they are adding to the spiral.

So I think we should intensively look at that issue, but not dismiss the writedown on collateral as necessarily being a boon to banks.

Mr. LEACH. Well, it may not be a boon to them, but you are writing in the statute an incentive for banks to foreclose on farmers. Once they foreclose you are writing in the statute an incentive for banks not to sell to farmers. I think that could become a greater social wrong than your goal of trying to prop up banks in a particular way. So all I would suggest is that that ought to be reconsidered.

Mr. LEVIN. Maybe so.

Mr. LEACH. Would you want to comment, Mr. Bereuter?

Mr. BEREUTER. I think you put your finger, and my colleagues attention on the dilemma. You know we have had a moratorium on the sale of land by the Farmer's Home Administration just because of the sensitivity of putting more land into the marketplace.

So I will look for some ideas as to how we can achieve two purposes without encouraging banks to foreclose on agricultural real estate.

Mr. LEACH. Let me just raise one other issue as well. And if we are going to write legislation, I am not sure we shouldn't write some sort of a standard suggesting that banks first should approach the community on seeking recapitalization.

We all know, in rural areas, there is not a lot of eagerness to buy bank stock.

On the other hand, when there's a lack of eagerness on the part of the board members, that doesn't mean in the community there isn't willingness to purchase some stock.

It just strikes me that for banks to become eligible for various programs, they should be required to see if their local communities are willing to seek some recapitalization.

We are certainly doing that in terms of the larger banks in terms of increasing their capital ratios. I am wondering if any of you have any comments on this type of provision.

Mr. DASCHLE. I personally would like to see that. I think that would be a welcome addition. It would ensure that some of the concerns we have with regard to their continued viability are met, and I think it's an excellent idea.

Mr. BEREUTER. I agree. We have seen this demonstrated already in banks in communities that have altogether lost their banks. So it's a good idea. I haven't had a chance to explore it. I would like to explore it with you.

Mr. LEACH. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Let me see if I understand the gentleman's proposal. You would encourage or would approve of a requirement that the institution go to the local community to seek additional capital?

Mr. LEACH. My sense is that a provision shall be included that an effort be undertaken to seek community support for recapitalization of banks.

Historically, in rural America, banks have had an easy time selling capital. Now, all of that is reversed.

By the same token, one of the reasons bankers don't want to sell capital is that, quite obviously, it would sell it below book value, perhaps at a substantial discount.

By the same token, I think we ought to make an effort to see if there is a possibility of recapitalizing rural banks.

Chairman **St Germain**. Thank you. Mr. Kanjorski.

[No response.]

Chairman **St Germain**. Mr. Wortley.

Mr. **Wortley**. No comment.

Chairman **St Germain**. Mr. Parris.

Mr. **Parris**. Thank you, Mr. Chairman. I will be extremely brief. I know we all want to get on with the testimony of the Chairman of the Federal Home Loan Bank Board.

Gentlemen, we are all obviously concerned about the status of the agricultural banks. But I am mildly distressed by the comparison, if you will, between the approach to the problem. Regulators and regulations versus legislation.

The question, it seems to me, comes down to somewhat of a judgment call. The regulators, as I understand it, yesterday, as Mr. Bereuter has alluded to, suggest concessions on bank capital. Very much the capital forbearance policy, very much similar to that which this committee, this subcommittee, undertook in the case of thrift institutions—and there are many. I concede to be among them, who think that that tended to promote reckless practices by some institutions in that category.

As Mr. Wylie has indicated before, if you have a capital forbearance to agricultural banks—only agricultural banks—the suggestion was made yesterday by the regulators that this may have to be extended to those that are involved with energy.

Secretary Baker told us as late as this morning that every bank in Texas is an energy bank, and I assume that that is probably correct.

Next, you have real estate. Then you have international loans, and with the impracticability, if you will, of the stultified process that we engage in around here every day, how do you keep adding one category of institutions to the next for capital forbearance when that industry happens to get in trouble in its particular area of activity?

I have very much concern about there's no uniform floor to the proposal that has been made. My question to you gentlemen is—and I would appreciate a very brief answer because, as you know, we have limited time—are you worried that when you relax the capital and accounting standards generally, that you tend to motivate these institutions to take even more speculative positions? Wilder risks, if you will, to earn their way out of trouble, which ultimately exacerbates the problem? Does that concern you?

Mr. **Daschle**. I think that the analogy that comes to mind is that you don't treat every patient with an aspirin. Obviously, in some cases, aspirin could be life-threatening. Obviously, as we deal with the multiplicity of different services provided in lending institutions, we don't deal with all of their ills in the same way either.

Certainly, the Federal Reserve Board hasn't done that in opening up special discount windows for the large banks at times when it was necessary. They will probably continue to do that, and I guess

I applaud that, the kind of individuality with regard to approach to policy.

But, clearly, we have a special situation here that may in the same way require special attention. We have to count on the good judgment of the financial institutions, first of all.

Second, the practical regulation of those involved in regulatory policy within the financial institutions to ensure that that policy is applied fairly is important.

Mr. **Parris**. I appreciate that comment, Tom. But this is part of it. If you extend the capital leniency, as I understand the proposal, of the regulators, only temporarily and only to, quote, "well-managed institutions," unquote, that requires subjective analysis, obviously.

If you do it case by case and you put the authority, the responsibility to do this in legislation, don't you lose some of the flexibility that addresses yourself to that problem?

Mr. **Daschle**. Well, I think it's a tradeoff, Stan. I think that there are times when certainly the subjective analysis of a given situation and the application of policies and regulations apply to that particular instance is necessary.

It happens virtually every day in policy. We do the best we can to set out some regulations and some policies to fit the needs of each and every particular case and crisis. But then we have to rely upon those in the regulatory agencies to ensure that those policies, and the intent of our regulations, are carried out.

That is subjective, but it always will be subjective, and I think the tradeoff is worthwhile.

Mr. **Levin**. Briefly, I would suggest that there's a danger that with legislation Congress may overstep, but if that means we take no step, I think we ought to understand the likely consequence.

Second, I think the cure should fit the cause to some extent. And if people feel that this agricultural credit crunch is basically a result of wild speculation by farmers and banks, I would suggest let them sink.

But I don't believe that. I think there was some speculation by some banks and farmers, but I don't think that's the basic cause of the agricultural credit crunch as I've read it and seen it a bit firsthand.

If that isn't the cause, then it seems to me that it's wise to have a measured remedy. We need to take each sector at a time in terms of causation and in terms of remedy, realizing that we may be setting a precedent when we act in one for another. But the fact that there are many problems out there, many problem sectors, I don't think should freeze us into inaction on any of them.

Mr. **Parris**. Well, I just hope we are not engaging in the knee-jerk reaction.

Mr. **Levin**. It's not knee-jerk.

Mr. **Parris**. Under the principle that there ought to be a law on the books.

Mr. **Levin**. No, no, it's the opposite. It isn't knee-jerk, it's firsthand information and observation, in my judgment.

Mr. **Bereuter**. I believe there's a 5-year period, a limit of 5 years. Perhaps we could combine it with something like what Mr. Leach suggested, a recapitalization effort must go on in that 5-year period of time. That would ensure that they are not trying to get well by wildly speculative activities.

Mr. DASCHLE. I might also emphasize that it enjoys the support of all of the lending organizations, the institutions. They have analyzed this and feel that it is a necessary tool in that toolbox by which they can better adapt to the needs that agriculture has today.

Mr. PARRIS. Thank you, Mr. Chairman.

Chairman ST GERMAIN. The chair would like to observe that I find a great difference between the Continental-Illinois bailout—I am reading numbers of $1,200 million that the FDIC committed to that institution. Why did Continental have problems?

Not because they were lending as the agricultural banks were to the farmers in their communities, but rather because they were greedy. They wanted to be the biggest.

Then we went to Penn Square in Oklahoma. We had fraudulent lending and the big banks got taken by that little hick bank in Oklahoma City.

I find a great deal of difference between those instances and between the big banks that sent the fellows out into the Hinterlands of Africa with the briefcases and the pinstripe suits to sell money for a high rate of return.

I can't sympathize with them the way I can with the agricultural banks, and with the small energy banks in the small towns in the States that are affected at the present time because of this drop in oil prices. As one member, and as the chairman, I can certainly differentiate between these situations, the difference between greedy and serving one's community.

Mr. Roth?

Mr. DASCHLE. You can't say anything better than that, Mr. Chairman.

Mr. ROTH. Thank you, Mr. Chairman.

I wish to compliment our colleagues on their excellent statements.

Being that it is quarter to 12, I think I will ask my questions that I have, and I have a number of them, of you on the floor when I see you, so that we can go on and hear from Chairman Gray.

Thank you.

Chairman ST GERMAIN. If there be no further questions, I would like to make a statement.

Mr. McKinney, I am sorry, I did not see you.

Mr. MCKINNEY. Mr. Chairman, the second ranking member has returned to the fold.

I just simply want to congratulate my three colleagues and say that I have one less farm than Sandy does, which is zero, but I will certainly listen with great eagerness.

I do worry as several others have expressed about—things change so rapidly—legislating permanancy, and I think that, having looked at all the bills, that that has to be looked at very carefully, because 5 years from now, we will be down another road.

The only thing, Mr. Chairman, that I would state in general would be that we are suffering now with agribanks and petrobanks. If there ever was an example, by the force of an economy of over-inflating an asset, both of these were cases. We all knew they would come back down.

It's too bad. We have got a problem, but we will do something about it. I congratulate all three of the gentlemen for taking a leadership position.

Chairman St Germain. The Chair would like to make a statement.

The Chair has been sitting up here for many, many years and has heard a lot of witnesses on behalf of their constituencies, colleagues, and Members of Congress.

I commend the panel for their sincerity, their incisiveness, and the manner in which they are addressing this problem. Really and truly, gentlemen, you have made a fabulous presentation.

I am sure, Mr. Gray, the Chairman of the Federal Home Loan Bank Board, did not mind waiting because it's been a very instructive hearing with this panel. I thank you.

All Panel Members. Thank you, Mr. Chairman.

Chairman St Germain. Now we will hear from the Honorable Edwin J. Gray, Chairman of the Federal Home Loan Bank Board. And I would make note of the fact that it's obvious that this hearing is important not only because of the appearance of Chairman Gray, but also because he has with him two of his very capable fellow Board members, Mr. Grigsby and Mr. Hovde.

We are glad to have you all here, Mr. Gray. We will put your entire statement in the record, and you may proceed.

STATEMENT OF HON. EDWIN J. GRAY, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD

Mr. Gray. Thank you very much, Mr. Chairman, and distinguished members of the subcommittee.

As always, I am very pleased to come before the subcommittee to discuss developments in the Nation's thrift system and initiatives the Bank Board is pursuing to strengthen that system.

I have sought your guidance throughout my stewardship as Chairman of the Federal Home Loan Bank Board. I have benefited greatly in these hearings from the implicit confirmation of public policy directions I and my colleagues have on the Board taken over time. And for that, I am deeply grateful.

Mr. Chairman, consistent with the subject matter you have asked that I comment on today, I am pleased to report on the current conditions of our thrift institutions and the extraordinary prospects I now believe exist for substantially improving the long-term health of the FSLIC.

In their wisdom a half century ago, the founders of the Nation's thrift system created an integral deposit insurance credit and regulatory structure under a single board of governors, whose responsibilities encompassed these three functions.

That structure, which to this day remains unique to the Nation's system of thrift depository institutions, has served our Nation very well down through the years. And I can think of no public-private sector partnership which has consistently worked so well to advance national public policy goals as the System we know as the Federal Home Loan Bank System.

Three of its component parts fit hand-in-glove with each other to support the fourth component—America's savings institutions—whose principal purpose is to enhance home ownership opportunities. While all four component parts are mutually dependent on each other, it is the fourth component of the System, our thrifts, which provides the financial support for the rest.

It is the member thrift institutions in this System which own stock in the Federal home loan banks, pay insurance premiums to the FSLIC, and underwrite the financial needs of the regulatory function. What the System amounts to then is a self-supporting, public-private sector partnership, whose overall financial resources are extensive, indeed. And we intend to keep it that way.

I say this because, as the written statement I sent you yesterday makes clear, we on the Bank Board believe we have fashioned a financial approach which addresses the need for a long-term recapitalization of the FSLIC fund and accomplishes it, free of any taxpayer-provided appropriations.

The outlines of the basic approach we have developed, which include a number of optional financial courses of action, are the product of months of exploratory work by our Federal home loan bank presidents and their key staffs.

We at the Bank Board not only have meshed our efforts with these bank presidents on a continuing basis, as you would expect, but we also have worked closely with Under Secretary of the Treasury George Gould, and his staff, on a range of thrift and FSLIC-related issues since last fall.

Under Secretary Gould met with the Board and the Federal home loan bank presidents at our February meeting in Cincinnati, where all of us shared our thoughts about how the resources of the FSLIC could be strengthened, with special emphasis on the manner in which the Federal home loan bank might appropriately assist in this endeavor.

Further refinements in the basic outline of the financing package have been detailed in the recapitalization section of my written statement. On a conceptual level, a meeting of the minds has occurred between the Bank Board and the Treasury on this matter. It is my understanding Treasury plans to refine the options and expedite the review process in the administration. I am hopeful we can move forward together with proposed legislation to accomplish the basic approach to recapitalization I have outlined within a month.

As you know, Under Secretary Gould is scheduled to testify before this subcommittee a week from tomorrow. I hope he can fill you in on developments in this regard at that time.

Again, the recapitalization approach I have outlined would not require taxpayer funds but would utilize the retained earnings of the Federal home loan banks, and a future share of earnings, in a very effective manner—by leveraging them through capital market borrowing, gradually over time, thus providing the FSLIC an additional $8 to $10 billion over the next few years. The borrowings would be repaid over a long period of time out of a portion of the earnings streams of the Federal home loan banks and a portion of premium assessments received by the FSLIC.

To repeat, all of the stock of the Federal home loan banks is owned by thrift industry member savings institutions. The 12 Federal home loan banks, assets total $112 billion. In the aggregate, they represent one of the strongest banks in the world with the 9-percent capital ratio. Their loans to member savings institutions are so well collateralized, they have never lost a penny on any loan, to my knowledge, in their half century of existence. Our recapitalization approach to FSLIC, using the strength of the Federal home loan banks would never touch their primary capital—only retained earnings and a portion of future retained earnings.

The overall recapitalization program—which, again, would rely solely on the resources of the thrift industry, itself, including the industry-owned Federal home loan banks—could add up to a $22 billion program.

We believe this would be adequate for the FSLIC to resolve all of its problem cases over the next 5 years.

What is more important is that this approach to dealing with our caseloads of failed and failing institutions would enable the FSLIC to resolve them much sooner and avoid additional costs associated with leaving them open longer.

We have little choice in the matter now because our current ongoing resources at the FSLIC are quite limited and, yes, finite, relative to the magnitude of costs we will need to resolve troubled thrift cases, as you know.

In the written statement, I point out that recapitalization of the FSLIC, important as we believe it is, must be tied to regulatory and statutory changes which very significantly reduce the likelihood of additional, continuing problems, such as those we are wrestling with now.

The statement goes into a number of key regulatory initiatives we intend to pursue, as well as recommended statutory changes. Quite clearly on the regulatory side, thrift capital requirements must be phased upward over 5 or 6 years to 6 percent. Additional reserve requirements on risky loans and investments need to be required also. We are developing a range of options intended to strongly encourage thrifts to reduce asset and liability and duration mismatch in their portfolios so they will not bind themselves in the same terrible 1981-82 type crisis which befell them and the FSLIC when interest rates surged upward during that period.

The prepared statement lists the salutary effects which have already been achieved through adoption of last year's net worth growth regulations, the direct investment regulation, and a number of others.

Several of the most important statutory changes we need are in the enforcement area. We are seeking specific statutory authority to define, by regulation, what constitutes an unsafe and unsound practice, pursuant to the National Housing Act. We also seek a key statutory change which would remove the word "substantial," as modifier of the term "dissipation of assets" in current law in connection with our authority to issue temporary cease-and-desist orders.

Such changes would enable the Bank Board to move to halt more quickly unsafe and unsound practices and take control of institutions sooner, before they cause significant losses to the FSLIC.

My prepared statement contains numerous other suggested statutory changes. We also strongly support extension of the net worth program and urge extension of titles I and II of the Garn-St Germain Act.

Finally, let me say that if the remedial approach we are proposing to address the FSLIC challenge is adopted by the Congress in an expeditious manner—which would, for all practical purposes, put that issue behind us—I can be very bullish, indeed, on the future of the Nation's thrift system. I believe this initiative would restore fully the public confidence Americans deserve from the system. In my view, all of us now have a real opportunity to make this happen soon.

Interest rates are at levels where the industry can rebuild its overall financial strength and bring about the restructuring necessary to accomplish this. Last year was one of great profitability for the industry, and I would expect a repeat of this in 1986.

As my prepared testimony suggests, the GAO report, which the subcommittee discussed at a hearing last week, was out of date because of the improving news on thrifts in 1985. The dark picture that report painted was seriously flawed, in our view.

Still, much remains to be done. But the change in mentality among thrift industry leaders over this last year, and their apparent willingness to support continuing injections of operating discipline by the regulators into the industry in the future bode very well for continuing progress.

Thank you very much, and I will be pleased to answer any questions that you may have.

[The prepared statement of Chairman Gray with attached appendixes follows:]

STATEMENT OF
EDWIN J. GRAY, CHAIRMAN
FEDERAL HOME LOAN BANK BOARD
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATE HOUSE OF REPRESENTATIVES

MARCH 12, 1986

Mr. Chairman and members of the Subcommittee:

Thank you for giving me this opportunity to bring you up to date on the problems facing depository institutions insured by the Federal Savings and Loan Insurance Corpration ("FSLIC") and the FSLIC itself, and to tell you of our past efforts and present proposals to address these problems. We at the Federal Home Loan Bank Board ("Bank Board" or "Board") very much appreciate your willingness to work with us in this matter.

I. INTRODUCTION

In 1985, savings institutions achieved their highest aggregate return on assets since 1979, and in the process earned net income four times that of just one year earlier. Most significantly, the thrift industry sharply reduced its growth rate from the unsustainable and unsound pace of 1984, largely in response to the Board's new net worth regulation. Liability growth slowed from more than 19 percent in 1984 to 8 percent in 1985, with the reduction concentrated in more costly and volatile liabilities. Thus, the Bank Board's efforts to keep thrift growth in line with the industry's real capital level is now bearing fruit.

The regulatory net worth ratio of the industry increased during 1985 by approximately 13 percent -- from 3.88 percent to 4.38 percent--as a result of improved profitability, sale of stock and subordinated debentures, and the issuance of net worth certificates.

Even under last year's favorable operating environment, however, a minority of the industry -- some 15 percent -- continued to experience operating losses, and a much smaller number of institutions encountered serious solvency problems because of unsound lending and investment practices, deriving in large part from earlier excessive deposit growth. This kind of growth had fueled such practices because too much high-priced money was chasing too few good assets.

Nevertheless, the recent report on the state of the FSLIC fund by the Government Accounting Office (GAO) drew conclusions which seriously overstated the nature and the magnitude of the problems facing the FSLIC. In Appendix A is a copy of a letter I wrote refuting the conclusions of the GAO Report. The GAO report implies that over 42 percent of the industry is likely to require some form of FSLIC assistance. In the Bank Board's view, the GAO seriously distorted the magnitude of the problem when it jumped to this faulty conclusion.

The GAO report is based on an analysis that only takes into account GAAP net worth. While the current level of net worth is important, an equally important factor is an institution's future earning potential. To suggest that all GAAP-insolvent institutions will require FSLIC assistance ignores future earning potential and thus tends to dramatically overstate the size of the problem.

Our analysis of the numbers in the GAO report indicates that less than 8 percent of the industry should be considered potential problem cases for the FSLIC. This number is significantly less than the 1,300 institutions with assets of $433 billion, or 42 percent of industry assets reported in the GAO document.

Another problem with the GAO report is its failure to examine the resources available to the FSLIC, including those of the Federal Home Loan Banks. The report also does not acknowledge that various actions can be taken to replace current managers of weak institutions, thereby arresting their deterioration and the resulting threat to the FSLIC. Indeed, the report fails to include the significant lines of credit available to the FSLIC.

As you know, the decline in the working reserves of the FSLIC has continued. At the end of 1985, the total insurance reserves were approximately $6 billion and the ratio of reserves to members' deposits remained at about 0.72 percent. After subtracting the projected costs of resolving a growing caseload of insolvent institutions, the usable resources of the fund are significantly less than the FSLIC's book reserves. This situation will be exacerbated because of the number and projected costs of cases expected to arrive on the FSLIC's doorstep in the near and foreseeable future. Book reserves are projected to decline, and the true level of usable reserves of the fund will also decline. This continuing movement seems inexorable, absent the remedial approaches I will discuss.

The number of FSLIC problem cases and the estimated costs to the FSLIC of resolving them have been, and continue to be, of serious concern to the Bank Board.

Therefore, the overriding concern of the Bank Board is that an acceptable long-term replenishment of the FSLIC insurance fund be found. In other words, the fund must be recapitalized. To do this, the Bank Board, the Administration, and the Congress must join forces to attack on two fronts the problems the FSLIC faces. First, the insurance fund must be recapitalized to provide the resources necessary to resolve problem cases in as timely a manner as possible. Second, regulatory and legislative changes must be made to reduce the likelihood of additional, continuing problems in the future.

II. RECAPITALIZATION

One of the major elements in solving any complicated problem is to come to grips with the size of the problem. Much debate has focused on this issue including testimony last week on the GAO report. The bulk of that hearing was devoted to responding to the GAO's overstatement of the problem and the flawed methodology contained in the report. Let me, for the record, clarify in detail the size of the problem, so far as the Bank Board is concerned.

There are currently 93 institutions with assets of $41.4 billion in the FSLIC caseload. These include 31 institutions in the management consignment program (MCP) and two Phoenix cases. Both the management consignment program and the Phoenix program allow FSLIC to warehouse problem cases until an acceptable solution can be found. Thus, while these programs provide a temporary answer, they do not provide long term solutions. The MCP program, which I will describe more fully later on, simply places FSLIC cases in a holding pattern awaiting ultimate resolution.

In addition to the 93 cases I've described, the professional staff of the Bank Board's Office of Examination and Supervision (OES) has reviewed institutions on a case-by-case basis and has identified 81 institutions with assets of $24.7 billion that are likely to require FSLIC assistance in the future. OES has also identified 42 institutions with assets of $14.2 billion that may fail in the future but whose resolution may or may not require FSLIC assistance. Thus, a total of 216 institutions with assets of approximately $80 billion will potentially require FSLIC assistance in the future. Another 69 institutions in the Bank Board's Significant Supervisory Institutions caseload, with $18.4 billion in assets, are not, at this time, projected to require financial assistance from FSLIC in order to achieve resolution.

The financial condition of the FSLIC depends critically on the number of cases that are resolved, and the cost to resolve them. Resolution costs vary depending on whether the institution under consideration suffers from an interest-rate-spread problem or has an asset-quality problem. For 1985, FSLIC has estimated that assisted mergers and acquisitions cost the FSLIC approximately 7 percent of a problem institution's assets. During the same year, liquidations cost approximately 29.3 percent of an institution's assets. Therefore, given its ratio of liquidations to assisted mergers in 1985, FSLIC estimates that resolutions in 1985 cost FSLIC, on average, approximately 14.5 percent of an institution's assets. This 14.5 percent multiplied by the $80 billion in assets held by the 216 institutions identified above, suggest that total resolution costs will run approximately $12 billion.

This $12 billion estimate, however, may be overly optimistic for two reasons. First, the 14.5 percent estimate for the weighted average cost of resolution does not include additional costs which may well be required to resolve the MCP cases. Since many of these are serious asset-quality cases, their ultimate cost of resolution will, in all likelihood, be higher than this average. Second, our FSLIC staff has already suggested that many of our future problem institutions are likely to be expensive asset-quality cases and therefore will be more expensive to resolve. Therefore, if one uses a 20 percent average cost of resolution to adjust for these factors, the estimated cost to resolve FSLIC's actual and potential caseload will more likely be in the $16 billion range.

This does not imply that FSLIC needs $16 billion immediately. Rather, the FSLIC will likely resolve all its known cases over the next three years. During this interim, other cases will inevitably arise. Thus, the resources that FSLIC will require over the next five years will include not only those necessary to cover known cases but also some resources to handle problem institutions which will end up on the FSLIC's doorstep. Our contingency planning provides for these uncertain costs by providing total resources of $20 billion or more.

In October of last year, I testified before this Committee and stressed my own belief that the FSLIC needed to be recapitalized. I noted then that there were three sources of recapitalization -- the Treasury, the thrift industry, or the Federal Home Loan Banks. At that time, I said I opposed -- and still do, of course -- recapitalization by the federal taxpayer. I said any recapitalization must be borne by the industry or the Federal Home Loan Banks. What I am proposing today on behalf of all three members of the Bank Board is a combination of both, since the Federal Home Loan Banks are wholly owned by member savings institutions.

All the stock of the FHLBanks is owned by the industry and the Banks are directed by regional boards made up of a combination of elected stockholders and Bank Board-appointed directors. As of December 31, 1985, the FHLBank System had $112 billion in assets and $10 billion in capital -- or a 9 percent ratio of capital to assets. Their balance sheets are composed of safe liquid investments and loans collateralized well above market value, primarily with residential mortgages. In 1985, the FHLBanks earned in excess of $1 billion and paid out close to $800 million dollars in cash and stock dividends. In short, the aggregate strength of the twelve Federal Home Loan Banks constitutes one of the largest and certainly safest banking systems in the world.

Last fall, I turned to our Federal Home Loan Bank presidents and their creative financial staffs to begin developing alternative ways in which they might help the FSLIC financially. Needless to say, they had to overcome a myriad of accounting, legal, tax, operational and financial obstacles.

The first such plan was developed by our Dallas Bank in October. Over the last few months, a variety of other worthwhile alternative approaches have been developed.

During this period, the U.S. Treasury Department began doing its own contingency planning regarding the FSLIC. I and my staff at the Bank Board have met on numerous occasions with Treasury officials over the past several months on thrift and FSLIC issues. Recently, representatives of a task force I appointed in early January, including a number of Bank Presidents and Bank Board staff, met with senior officials at the Treasury to mesh together our joint efforts. On a conceptual level, a meeting of the minds already has occurred among both groups. A variety of options have been developed from which a final joint proposal should emerge. It is my understanding that Treasury plans to refine the options and expedite the review process within the Administration, and hopefully we can move forward together with legislation to accomplish recapitalization of the FSLIC within the next 30 days.

As I have already mentioned, FSLIC will need to spend approximately $16 billion over the next three years and up to $22.5 billion over five years to resolve problems. An infusion of approximately $8 billion -- together with the FSLIC's current reserves and income from regular and special premiums and investments -- appears sufficient to solve cases costing between $16-18 billion. An infusion of $10 billion could handle cases costing between $20-22.5 billion.

We have carefully analyzed the balance sheets of the Federal Home Loan Banks to determine the amount of resources which are available to aid FSLIC, without impairing the financial strength of the FHLBanks, in order to accomplish a recapitalization of the insurance fund. Since the FHLBanks are wholly owned by member savings institutions in their districts, the maintenance of their financial integrity is crucial to the membership if the FHLBanks are to continue to both lend funds at relatively low rates and to pay appropriate dividends. In 1985, the dividends paid by these Banks to their member institutions amounted to approximately 20 percent of the savings institutions industry's earnings.

The FHLBanks had total retained earnings of $1.8 billion and assets of $112 billion at the end of December, 1985. The FHLBanks -- in the more than half century of their existence -- have never sustained a loan loss. Their loans are so well collateralized they do not carry loan loss reserves. The other key component of our national thrift system, the FSLIC, was established to absorb the losses of the FSLIC-insured members of the FHLBank System. It seems reasonable to all three members of the Bank Board therefore, given both the strength of the FHLBanks and the needs of the FSLIC, that the current and future retained earnings of the FHLBanks could appropriately be leveraged in order to provide additional funds to the FSLIC to assist it in meeting its obligations over the next few years or so. Assuming earnings of $1 billion a year, funds represented by this earnings stream could provide approximately $200 million to $300 million per year to aid FSLIC without significantly reducing dividends to member institutions.

Two alternative means of using these retained funds are available. The funds -- including the $1.8 billion in the FHLBanks' retained earnings and a future share of earnings -- could be given to FSLIC to provide $3-4 billion over the next several years, or they could be leveraged through capital market borrowings to provide $8-10 billion. It seems far more reasonable to us to leverage the FHLBanks' contribution, and pay off such borrowings over a long period of time from the earnings streams represented by a portion of FHLBank earnings and a gradual decline in the level of premium assessments received by the FSLIC.

From our discussions with the FHLBank Presidents and Treasury officials, the Bank Board is united in agreeing that any approach of this kind to recapitalize FSLIC should consist of four steps. These are: (1) the issuance of debt; (2) the setting aside of funds to assure principal repayment; (3) the long-term payment of interest on the debt; and (4) the transfer of the proceeds to FSLIC, perhaps in the form of an equity investment. These four steps can provide FSLIC with upfront money that can be used to resolve cases sooner rather than later, and thus cut the fund's losses which otherwise would result from a deteriorating, more costly caseload.

The issuance of such debt by the Federal Home Loan Banks could be through regular FHLBank consolidated obligations, through special obligations for this purpose only, or through other market mechanisms. The regular consolidated obligation route is least desirable since the cost of all FHLBank debt could be increased if the market perceived additional risk to the FHLBanks. Special "revenue" bonds also are an option. Principal repayment would be assured through investment in some form of sinking fund. Interest payments could be passed through from FSLIC earnings. Other options are available to separate the perceived risk of the FHLBanks from the FSLIC. They also would utilize sinking funds and interest obtained from the FSLIC income stream. Such options could be designed to further reduce the market impact for FHLBank debt. It must be acknowledged that the Bank Board will under no circumstances consent to reducing the primary capital of the FHLBanks below its current limit of $8 billion.

The second step would employ future retained earnings of the FHLBanks to provide either a sinking fund or other options for repaying the principal of the debt issued for the benefit of FSLIC. The proceeds would be passed through to FSLIC. A trustee would be likely in any case. At current rates, the available funds in the FHLBank retained earnings accounts could be used to set up the principal repayment component of such a sinking fund. With the principal return assured, the only remaining concerns would be limited to interest repayments.

The third step is the actual payment of the interest on the debt obligation by FSLIC. If the FHLBanks purchase some form of stock or deposit instrument from FSLIC, dividend or deposit payments would have to be structured to cover interest expense. If the infusion to FSLIC was in the less desirable form of a loan, the interest paid on the loan by FSLIC would have to cover the interest payments to debt holders of the FHLBanks.

The fourth step in such a recapitalization would be the transfer of the proceeds from the FHLBanks to the FSLIC. As Treasury Under Secretary George Gould mentioned in his testimony before the Senate Banking Committee last week, the money could be provided in the form of loans, deposits, subordinated debt or preferred stock. This last option -- that of preferred stock -- is the most desirable. As a result of certain government accounting conventions, the addition of debt or deposits to FSLIC's balance sheet would not increase its reserves. The purchase of preferred stock in FSLIC by the FHLBanks would increase FSLIC's reserves and therefore the amount of funds available for case resolution.

In any event, the funds to cover the debt interest must come from FSLIC and future FHLBank retained earnings. In order to service $8-10 billion in 20-30 year debt obligations, at projected rate levels, the FSLIC would utilize a portion of its investment income and regular premium income and the proceeds from a gradually declining level of special assessment income. With regard to the latter, under our current assumptions, the one-eighth of one-percent special assessment could either be retained in full for five to six years, or be phased out gradually over 10 years -- with a 10 percent reduction in 1987, a 25 percent reduction in 1988, a 40 percent reduction in 1989, a 50 percent reduction in 1990, and tapering down in the same manner over the last five years to zero. The latter alternative is our preferred approach because it is more sensitive to the large burden the special assessment places on healthy institutions over the next few years. The gradual phase-out of the special assessment would preserve the amount of funding required to develop the needed multi-billion dollar recapitalization of the FSLIC.

From Congress' point of view, the resulting approach would greatly strengthen public confidence in the thrift system by providing adequate support to the FSLIC to meet its obligations, as we and the Treasury see them. Providing that the preferred stock approach is utilized, such an equity instrument would not negatively impact the budget deficit, because this kind of equity investment would be made by the Federal Home Loan Bank System. The financial strength of the Federal Home Loan Banks would be maintained through the kinds of very strict financial safeguards I have described. Although the Garn-St Germain Act authorized the Federal Home Loan Bank Board to direct the FHLBanks to assist the FSLIC, the recapitalization assistance approaches which have been developed would necessitate legislation to fully implement them.

From the thrift industry's perspective, the basic general approach I have outlined should accomplish three major goals. It would leverage, by a significant amount, the yearly insurance premium assessments paid by FSLIC-insured thrifts so that problem cases could be solved earlier at a lower cost, thereby limiting the future impact of more expensive losses on the FSLIC fund. It would provide needed resources to resolve many cases that are presently in a deferral mode, so that the high rates paid for deposits by these sick institutions would cease to disrupt the deposit market equilibrium for healthy institutions competing in their market areas. Finally, and very importantly, the approach all three Board members prefer is a phase-out of the one-eighth of one-percent special assessment, so that healthy members of the thrift industry would be able to see a "light at the end of the tunnel," and gradually get out from under the costly burden they must share.

In summary, a well-conceived and feasible set of options has been developed by the Bank Board and they are now being reviewed by the Treasury Department.

III. BANK BOARD RESPONSE TO EXISTING LEGISLATIVE PROPOSALS

A) EXPANDING ACQUIRERS OF TROUBLED THRIFTS

A basic Bank Board policy is to seek a wide variety of investors to bid on failing and failed thrifts to minimize expenditures for the FSLIC. We actively encourage commercial banks, industrial firms, insurance companies, as well as "nonfinancial" organizations to submit bids to acquire failed institutions under the bidding process established under the Garn-St Germain Act. With a single exception, any interested party can participate in that bidding process so long as it meets essential financial requirements, can demonstrate a good record, and show it is willing to play by our rules.

The single exception is limited only to those corporate entities whose activities are concentrated in a very significant way in investment banking -- that is to say, in the underwriting of, and marketmaking in corporate securities. The Bank Board adopted a policy of not permitting affiliations of thrifts and securities underwriting firms in the fall of 1983. We did so at that time because we believed, and still do, that the issue is significant enough to require full congressional policy regarding guidance to the Board. Nevertheless, since then, the Board has developed a "Chinese Wall" segregation-of-activities approach to securities underwriting affiliates of insurance companies, for example, which seek to acquire troubled thrifts. The Board takes the position that application of this particular approach should be exercised on a case-by-case basis, depending on various factors.

Some commercial banks have complained that they are not wanted as acquirers. That is absolutely false. We welcome them with open arms. However, we expect them -- and all other serious bidders -- to help us save the FSLIC money when they submit their bids.

Two difficulties the Bank Board faces in finding serious acquirers for its FSLIC cases are the poor asset quality of most troubled institutions and the high cost of the "hot" money funding their portfolios. These problems of poor asset quality and high liability cost have substantially offset the interstate franchise value of failed thrifts. The continued existence of the nonbank bank phenomenon also erodes the franchise value of such thrifts. We have never taken a position on the merits or demerits of nonbank banks, as such. Our concerns have been limited to the manner in which nonbank banks hinder entities from acquiring troubled thrifts because such entities have far less expensive access to nonbank bank franchises. The more the interstate franchise value of a failed thrift is offset by such "debits," the more the FSLIC must contribute from its own resources to resolve troubled cases.

When no acquirers can be found, the Bank Board has no alternative but to ultimately close a failed institution, and that is very costly, indeed. To strengthen the franchise value of FSLIC-insured institutions and stop this hemorrhage in the FSLIC's limited reserves by injecting sorely needed capital into the industry, legislation is urgently needed in three areas.

The first involves dealing with the nonbank bank issue. While it is impossible to precisely measure the impact the nonbank bank phenomenon has, and has had, on the FSLIC's ability to resolve problem cases, bidders who were willing to negotiate seriously to acquire a failed thrift to achieve interstate operating rights have largely disappeared. Again, they can now buy interstate operating rights far more cheaply by obtaining a nonbank bank charter.

The second needed legislative action is extension for three years of the emergency provisions of Titles I and II of the Garn-St Germain Act, particularly the net worth certificate program and the extraordinary acquisition provisions. The Board is very appreciative, Mr. Chairman, for the support you gave us last year on this matter. We hope we will receive additional support for extension of these provisions, which are absolutely critical to avert further serious erosion of the FSLIC's reserves. Through December 31, 1985, 115 FSLIC-insured institutions (85 federally chartered and 30 state-chartered) had issued or had outstanding net worth certificates totalling $210,575,000. Appendix B discusses in detail the value of the net worth certificate program and why it should be extended.

The third needed reform involves eliminating all bidding priorities established by section 123(a) of the Garn-St Germain Act. The Board believes increasing the flexibility of the FSLIC to negotiate emergency thrift acquisitions without those bidding preferences and procedures will result in two benefits. First, it will allow more creative solutions of benefit to the FSLIC. Second, it will encourage qualified and much needed investment capital sources, both in-state and out-of-state, to more actively participate earlier on in the restructuring of troubled institutions.

Section 123(a) empowers the FSLIC to arrange mergers of failed thrift institutions across state lines regardless of interstate branching prohibitions. However, it also requires the Board to give first preference to savings institutions from the same state. And if the qualified offer presenting the lowest expense to the FSLIC is from an institution that is not an in-state savings and loan holding company, additional offers are permitted from any such in-state offerer whose original bid was within 15 percent or $15,000,000, which ever is less, of the initial lowest acceptable offer. The Board believes this bias against out-of-state bidders often discourages them from participating in bidding conferences, thereby precluding potential offers presenting the lowest expense to the FSLIC from outside the home state of the financially distressed thrift. Again, this four-tier bidding procedure has perhaps had the unintended effect of slowing down the process of eliciting the best possible bids for troubled thrifts at the earliest possible time.

The Bank Board also believes that "tandem" restrictions placed on thrifts which would be acquired by bank holding companies -- restrictions which may be imposed by the Federal Reserve Board -- constitute an impediment to the FSLIC's efforts to attract such acquirers for failing thrifts. Perhaps, the authority to determine appropriate operating limits for thrifts owned by a bank holding company ought to be vested in the Bank Board, itself.

An emerging and very serious problem relating to the acquisition of troubled thrifts derives from the **Tax Reform Act of 1985**, recently passed by the House of Representatives. This bill, now being considered by the Senate, would repeal several provisions of the Internal Revenue Code (I.R.C.) that facilitate supervisory mergers and conversions of failing thrift institutions. These provisions of the Internal Revenue Code are: Section 368(a)(3)(D)(ii) (taxfree reorganization treatment of supervisory thrift mergers); Section 382(b)(7)(B) (net operating loss carryovers in tax free supervisory mergers); Section 597 (FSLIC assistance not taxable); and Section 593(e)(1) (no recapture of bad debt reserve when FSLIC assistance is repaid).

The Board urges the following with regard to these four provisions. First, the FSLIC tax provisions should be continued in effect and not repealed. Section 804(a) and (b) of H.R. 3838, which repeal the FSLIC provisions, should be rejected. Second, supervisory thrift mergers and conversions should be excepted from the proposed new revisions of restrictions on net operating loss carryovers under Section 382 of the I.R.C. (Section 321, H.R. 3838). Third, I.R.C. Section 265(1) should not apply to thrifts which receive FSLIC assistance. This I.R.C. section disallows deductions for expenses "allocable to" receipt of tax-exempt income. Section 804(c)(2)(B) of the House bill contains such a clarification, but only for 1981 through 1985. This provision of the House bill is sound, and should apply for the entire period during which the FSLIC tax rules are continued. Finally, the taxfree reorganization category should be updated to cover supervisory conversions as well as mergers of troubled thrifts.

Repeal of the FSLIC tax rules would have a devastating effect on the Bank Board's ability to arrange supervisory mergers. The practical effect will be to dramatically reduce the number of potential acquirers and increase the cost to the FSLIC for those entities still willing to acquire failed institutions. For example, in some recent negotiations, potential acquirers have asked the FSLIC to indemnify them for the increased tax liabilities that will arise if the merger and the FSLIC assistance become taxable. Furthermore, these transactions could become illegal because the cost of assistance could exceed the cost of liquidation. In such circumstances, the current law requires the institution to be liquidated.

We believe that if repeal of the provisions I have described were to occur, acquisitions of failing institutions would come to a screeching halt. This would eliminate any purported increase in tax revenues. Given the enormous strains on the FSLIC fund, we believe these portions of the the Tax Reform Act are "pennywise and pound foolish." Although the House tax staff estimates increased revenue of $1.3 billion, we find this figure completely illusory. In fact, liquidating payments would increase and, since the full faith and credit of the United States implicitly back the FSLIC insurance fund, repeal of these critical provisions would ultimately cost the Treasury more than the cost of continuing the existing tax rules.

We believe it is absolutely critical to eliminate these provisions from the Tax Reform Act entirely. My fellow Board members and I have expressed these concerns to the appropriate Committees. We will continue to press for preservation of the current tax treatment to protect the FSLIC's resources.

IV. BANK BOARD INITIATIVES TO STRENGTHEN THRIFTS AND THE FSLIC

Over the last year, the Board has taken a number of steps to improve industry health and the condition of the FSLIC.

A. IMPROVING THE EXAMINATION AND SUPERVISORY PROCESS

The Bank Board has made a herculean effort within its limited resources to address the examination and supervision needs posed by the thrift industry. On July 7 of last year, we transferred our field examination function to the twelve Federal Home Loan Bank districts, a move which has enabled us to pursue the process of building a better trained and more effective field examination force. Within less than six months of that transfer, the number of examiner professionals in the twelve districts was increased from 747 to 1,003, or 34.3 percent. This transfer of the examination function has enabled our Principal Supervisory Agents to hire more and better qualified candidates than had been previously possible. The trend will continue. We will hire 250 more examiners by June 30, 1986, and we expect to have more than 1,500 field examiners in the field by the end of 1986.

In addition to increasing our field examination force, we have also doubled our supervisory staffs in the districts in the last eighteen months. We have directed the Principal Supervisory Agents to continue this buildup.

As a result of the continuing increase in our examination and supervisory forces in the Federal Home Loan Bank districts, the Board has established what amounts to a national field examination and supervisory strike force which can be assigned to meet special, critical needs in any of the districts.

Since the Board delegated the field examination functions to the Principal Supervisory Agents of each district, and while we continue to delegate further supervisory functions to the Banks, it is critical that the Board continuously review, monitor, and closely oversee the effectiveness of examination and supervision.

In this regard, the Board has begun to put in place, through a system-wide task force, the best and most modern computerized systems both for examination reports and supervisory actions, and to computerize input from each institution for the monthly and quarterly financial data required by the Board. We intend to put onto computer, on a continuing basis, all examination reports and the supervisory follow-up to examination reports, so that the Bank Board can more effectively audit and oversee that joint field function in Washington. The computerized tracking and information system for examination and supervision, integrating the Board's central financial reporting system, will be a needed, additional tool for monitoring and evaluating the Federal Home Loan Banks' compliance with Board policies and delegated responsibilities. Moreover, I have asked Board Member Mary Grigsby to lead a task force to establish a post-decisional or post-action audit review process for the Bank Board utilizing the new computer systems. She has reported substantial progress in this area.

B. CREATION OF THE OFFICE OF ENFORCEMENT

Improving and increasing our examination and supervision staffs is only one part of the total enforcement emphasis of the Bank Board. In November 1985 the Bank Board created a new and separate Office of Enforcement, comprised of the staff of the former Division of Enforcement within the General Counsel's Office. Shortly thereafter, the Office was authorized to double its size in 1986. This reorganization allows us to act even more quickly and aggressively to halt abusive practices which threaten the FSLIC fund. The increased volume of formal enforcement activity is a direct result of the increased level of examining and supervisory personnel, as well as a series of supervisory directives the Board sent in 1985 to impress upon all supervisory personnel at the twelve Federal Home Loan Banks the need to vigorously enforce all laws and regulations. In particular, the Board directed that immediate and effective supervisory action be undertaken for all unsafe or unsound practices and that immediate referrals be make to the Office of Enforcement for all material violations of laws, regulations, and agreements. These directives have already resulted in substantial increases in both informal supervisory actions and formal enforcement actions.

C. FEDERAL ASSET DISPOSITION ASSOCIATION

Another significant initiative in 1985 was the formation in November of the Federal Asset Disposition Association, or FADA, frequently termed in press reports the "406 Corporation." The FADA is a wholly owned subsidiary of the FSLIC, which will manage and dispose of assets received by the FSLIC in case resolution actions. Only a few weeks ago, the FADA's board of directors selected a highly qualified chief executive officer who is now gathering the staff necessary to begin the FADA's operations.

There has been much speculation and misinformation about the Bank Board's plan for the FADA. Let me set the record straight. Simply put, the FADA will be a nonexclusive contractor for management and disposition of FSLIC assets. While this function is now hampered by restraints on FSLIC staffing and resource allocation, creating of the FADA should dramatically change this situation. The FADA will be able to rapidly match hired talent to specific asset management problems, maximizing and accelerating the return of cash to the FSLIC. The FADA is just another refinement by the Bank Board in fulfilling its obligation to protect FSLIC resources by operating in an efficient and cost-effective manner, prudently using premium dollars to resolve FSLIC problems.

D. MANAGEMENT CONSIGNMENT PROGRAM

The Management Consignment Program (MCP) is a new tool used by the Bank Board for containment and evaluation of problem institutions. It is also meant to minimize the FSLIC's eventual solution costs. The program has been most useful thus far in handling large, troubled institutions whose bad asset problems have surfaced but not been fully defined. Assets and liabilities normally are passed through a receivership to a federal mutual structure to keep them in an operating entity. Day-to-day supervision is delegated to the Principal Supervisory Agent (PSA) in the relevant Federal Home Loan Bank district. The MCP entity operates under the watchful care of a highly qualified management group hired by the new institution with the PSA's approval, and with a board of directors of the MCP approved by the Bank Board.

The principal advantage of the MCP is that it permits rapid supervisory action without the necessity of a final FSLIC case resolution through sale or liquidation, terminating behavior that brought the institution into insolvency while allowing time for a measured unwinding of affairs and close examination of the assets. Such a program also appears to stabilize the deposit outflow at each institution. Each MCP participant is in a holding pattern, with expert management imported from successful members of the thrift industry attempting to unwind its affairs. MCP institutions are usually not immediately marketable, largely because of unknown asset quality or litigation in progress. Orderly marketing or rehabilitation eliminates more costly liquidation action, and the entire process conserves the FSLIC's resources. Because many MCP institutions are paying high rates for funds to attract and maintain deposits, the staff is exploring ways in which lower cost funds from the FHLBanks might be utilized to reduce the cost of money to these institutions, and therefore reduce the pressure on healthier competitor institutions to pay higher rates than necessary.

E. REGULATORY ACTIONS

In 1985, the Bank Board took several historically unprecedented and critically important actions to reduce the risk exposure of the FSLIC by strengthening industry capital positions and providing for better monitoring of thrifts' condition.

The Board amended its net worth regulation to require thrifts to earn their growth: that is to say, to correlate liability growth to net worth. The regulation also began the phase-out of certain regulatory accounting techniques that had previously overstated -- that is to say, distorted -- net worth levels.

The Board also adopted a direct investment rule, which requires prior supervisory approval for investments in equity securities, real estate, and service corporations exceeding certain threshold levels tied to an institution's net worth.

The revised net worth requirements had a significant effect on industry operations last year. Overall growth in liabilities dropped from 19.4 percent in 1984 to 7.9 percent in 1985, as managers conformed to the new net worth requirements. Moreover, growth rates were reduced most sharply by institutions with low net worth ratios. During the first three quarters of last year, growth in liabilities of institutions with net worth ratios of less than 1 percent was at an annualized rate of minus 4 percent, whereas it had been 21 percent in the comparable period a year earlier. The growth rate for firms with net worth ratios in the 1-3 percent range dropped from 26 to 4 percent. On the other hand, the growth rate for firms with net worth ratios above 5 percent dropped less, from 13 to 11 percent.

With regard to the requirement for added net worth based on direct investment, during the third quarter of last year, 67 firms were required to increase their net worth by an aggregate of $207 million because of the new requirement. We anticipate continued significant improvement in the industry as the result of both regulations.

The Board also adopted a final regulation on the classification of assets. The prior classification system did not adequately identify credit weakness in commercial loans, ADC loans, and construction loans because payment schedules and other indicia of "current" status are often of a different nature than such loans. The regulation applies to all loans except consumer loans and home loans.

Through this regulation, the examination and supervision process may now classify problem assets as "substandard," "doubtful," or "loss." When an examiner determines that an asset has specific weaknesses, he or she may recommend that the asset be classified as "doubtful" or "loss," and the supervisory agent will determine the amount of loss reserve. Depending on the Principal Supervisory Agent's determination, such problem assets may ultimately require establishment of a specific reserve. The reserves are drawn from the institution's net-worth accounts and thus lower its regulatory net worth. "Substandard" assets are treated as scheduled items, increasing the institution's minimum net worth requirement.

The classification of assets regulation closely parallels the classification method long used by the federal banking agencies and enhances effective supervision by providing thrift examiners with the means to identify and address credit weaknesses in assets.

In another action, the Bank Board moved to differentiate more accurately for reporting purposes between acquisition, development, and construction -- or ADC -- loans and direct equity investments. Many ADC equity investments have been accounted for as loans, and poorly underwritten ADC loans represent one of the major catalysts of FSLIC problems. The portfolios of most of our problem FSLIC cases are strewn with ADC direct investments, often camouflaged as ADC loans gone sour. In reviewing supervisory cases I have observed that many of our troubled major loans contain virtually no equity from the builder or developer: only the insured institution making the loan is at risk.

The industry's general, standard loan-to-value ratio of 10 to 20 percent equity for the typical home loan stands in sharp contrast to the minimal or nonexistent equity participation of builders and developers. The disparity is even more disturbing if one considers that the underlying collateral in the homeowner loan is relatively liquid and the debt service is soundly based on the homeowner's wages, as opposed to the illiquid and speculative nature of ADC loans.

To halt these egregious investment practices, the Board adopted an accounting policy that insured institutions are expected to apply standards of the American Institute of Certified Public Accountants which describe factors to be considered when determining whether a transaction characterized as an ADC loan is, in substance, a loan or a real estate investment or joint venture. The staff is currently considering the suggestion of our supervisory agents and others that we establish loan-to-value limits on ADC loans. Staff also is looking at a number of other ways to modify and very significantly tighten up the Board's loans-to-one-borrower requirements.

In order to improve the FSLIC's ability to trade franchise rights for assistance with its problem cases, the Board has proposed two regulatory amendments affecting interstate branching by federal saving and loan associations. First, a limited regulation would encourage competition in the District of Columbia and contiguous states and improve the competitive position of federal associations based there by (1) permitting federal associations based in the District to branch in either Virginia or Maryland, but not both, and (2) permitting a federal association based in Virginia or Maryland to branch within the District.

The second proposal is more far-reaching, affecting both branching and acquisitions. It would provide, with respect to branching across state lines, general parity for a federal association with state-chartered thrift institutions of the state in which the federal association's home office is located. Accordingly, a federal association located in a state granting to its thrift institutions "regional compact" or "reciprocal" branching rights could exercise the same rights as such state institutions. A federal association in a holding company structure could also exercise such "regional compact" or "reciprocal" rights, but only if no other FSLIC-insured institution within that structure possessed or exercised rights of this kind.

The second proposal would also break new ground in branching associated with acquisitions of failing FSLIC-insured institutions. The present policy allows a federal association to branch in a state other than its home state if it acquires a failing thrift in that other state. The proposal, however, would also permit, in selected FSLIC cases, "regional" branching rights to be obtained. A federal association acquiring a failing institution could be permitted to branch within as many as three states in addition to the state of the failed thrift or within a region defined by state laws on "regional compacts." The proposal should not be read as signalling a move by the Board toward unrestricted branching, even in supervisory cases.

Staff is also developing a regulatory proposal that would generally prohibit, or significantly limit, the use of noncash assets as contributions to net worth for facilitating the merger of institutions. Staff believes that such a regulatory change will better protect the FSLIC in the long run since noncash asset transactions are difficult to value as capital contributions.

In addition, staff is developing a proposal to address concerns that current liquidity requirements fail to reflect today's financial realities and that revision could be accomplished by establishing a liquidity coverage index to reflect an institution's ability to meet commitments and withdrawals. In other words, an institution's liquidity requirement would be based on its liquidity coverage index.

We are also exploring new ways to more effectively deal with nationwide lending, especially in the loan participation area where there have been many significant losses to institutions and, in too may cases, to the FSLIC itself.

Finally, staff is pursuing the final stages of another major regulatory initiative to further enhance the financial condition of the industry and ameliorate the strains on the FSLIC fund. The current minimum net worth requirements for thrift institutions are set too low either to adequately absorb significant losses or deter inordinate risk-taking. The preparation of options to increase the capital level of the industry and link capital requirements to both interest-rate risk and credit risk include:

- -- Gradually increasing required thrift capital levels to 6 percent over a five to six year period;
- -- Accelerating the phase-out of, or expediting the elimination of distortive effects of five-year averaging in calculating net worth;
- -- Establishing risk-sensitive reserve requirements to take into account the risks associated with activities such as direct investments, acquisition, development, and construction loans; non-residential construction lending and commercial real estate loans; and
- -- Linking capital requirements to asset-liability maturity and duration matching criteria and the risk-reducing effects of high-quality, maturity-matched traditional housing investments.

It is the Board's intention to move the industry generally -- in a gradual, phased manner -- closer to GAAP accounting standards.

F. COMPENSATION AND BENEFITS CONSTRAINTS

The Bank Board is plagued by recruitment and retention problems. Competitive disadvantage with the private sector will probably always be present, but the Board is also suffering severe competitive disadvantage vis-a-vis the other financial regulatory agencies.

The Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency have compensation and benefit flexibility which is beyond the reach of the Bank Board. That flexibility enables those agencies to offer employment packages comparable to those of many private sector enterprises. As a result, the Bank Board has been at a severe double disadvantage in competing for badly needed top talent.

The key to the flexibility of the other agencies is exemption from the Classification Act rooted in their enabling legislation. Although they generally follow the salary grades and pay ranges of this Act, our sister agencies have freedom to fix compensation of, and provide salary enhancements and benefit programs for, their employees as they deem appropriate. The Bank Board is denied such independence by a previous interpretation of the Office of Personnel Management that the Bank Board is subject to the Classification Act.

We have requested an administrative determination exempting the Bank Board from the Classification Act and related compensation regulations from the Office of Personnel Management. I hope the Board will not be forced to request legislation to ensure parity between the Board and its sister regulatory agencies in this regard.

G. APPLICATIONS TIME CLOCKS

On January 15, 1985, the Bank Board implemented a FHLBank System-wide new computer-based applications tracking system intended to reduce to a minimum the time required for processing all types of applications filed with the Board. More than 85 percent of all decisions regarding various thrift institution applications has been delegated to the Principal Supervisory Agents in the twelve FHLBank districts.

Under the new system, the Board established a series of stringent intermediate and final time deadlines for Board or Bank action on each different type of thrift application. The Board's Office of District Banks monitors the actual processing of applications to ensure that work is completed on schedule. In addition, the Board established a review committee, headed by Board Member Mary Grigsby, that reports monthly on the Board's and Banks' performance in meeting the prescribed deadlines, and also identifies causes of and remedies for any persistent processing failures.

During 1985, the diligent enforcement of the time clocks, along with the review committee's monthly reports, helped reduce applications processing time substantially by year-end. The Board expects to achieve further reductions in processing time in 1986.

H. THE MUTUAL TO STOCK CONVERSION PROGRAM

The Bank Board has given high priority to administration of the mutual-to-stock conversion program under which FSLIC-insured thrifts may convert from the mutual to stock form of ownership. Mutual-to-stock conversions have proven to be a unique and extremely effective means of infusing needed capital into the thrift industry, and the capital raised through conversions -- nearly $5.5 billion --now equals approximately 12% of the aggregate net worth of the entire industry. I have attached to my testimony as Appendix C a table depicting the number of applications for conversions filed, approved and completed, for each year since 1972. The last column reflects the amount of capital raised by the converting associations. Notably, nearly $5 billion of the approximate $5.5 billion total has been raised during the past three years. This figure reflects the key role that conversions can play in bringing new capital to the thrift industry. In addition, Appendix D illustrates the number and asset size of institutions that have converted from the mutual to stock form of ownership since 1985.

Although the Bank Board adopted regulations to govern its mutual-to-stock conversion program in 1974, the Board continually has revised these regulations to meet both its goals and the industry's needs by providing substantial flexibility to the conversion process, and greatly expanding the industry's potential capital sources.

During 1985, the Board adopted certain amendments to the conversion regulations which streamlined the conversion process in significant areas. First, while affording suitable recognition of the rights of mutual accountholders, the Board adopted amendments to its regulations regarding the conversion proxy solicitation process. Second, the Board adopted amendments to clarify and simplify the rules and make modified conversions more attractive. In 1985, the Board also proposed amendments to regulations governing voluntary supervisory conversions and modified conversions of mutual insured institutions to stock form. The purpose of the proposed amendments is to clarify several of the policies and interpretations of the Board and to expedite the processing of voluntary supervisory conversion and modified conversion applications.

In addition, staff is now actively examining additional, far-reaching measures that would further streamline the conversion process and, therefore, further enhance the use of conversions. The Board recognizes conversions are a unique capital raising tool, and staff is developing recommendations directed, in particular, at facilitating investment of new capital in ailing institutions through the supervisory and modified conversion processes.

V. OTHER BANK BOARD LEGISLATIVE PROPOSALS

The Bank Board strongly believes that various components of its legislation, which have been before Congress for over two years now, are critical to instill equilibrium to the thrift regulatory structure and reaffirm its historic Congressionally mandated mission of providing economical home financing.

1. EXPANDED ENFORCEMENT POWERS

The severe financial crisis which has plagued the thrift industry over the past several years has painfully heightened the Bank Board's awareness of the need to improve and enhance the authority of the Board to examine and supervise the institutions under its jurisdiction. During this time, we have had to allocate our limited resources to handle only the most critical situations rather than systematically pursuing a thorough program of examination and supervision aimed at preserving the health of institutions that are still viable. But still hampering our efforts to provide adequate and timely supervision are outmoded and time consuming enforcement authorities which do not reflect, and can not respond quickly enough to, the volatile and fast-changing financial environment in which thrifts compete. For these reasons the Board will be requesting a number of legislative changes to strengthen the enforcement tools it uses to monitor risk-taking and avert substantial losses to the FSLIC fund.

The requested changes to our enforcement authority may be divided into three general areas. The first area for legislative action includes our proposed amendments to strengthen the Board's authority to issue temporary cease-and-desist orders. At the present time, a temporary order that is immediately effective may be issued only when an alleged violation or unsound practice is likely to cause insolvency, a substantial dissipation of assets or earnings, or a serious weakening of the financial condition of the institution. Because our statute allows an institution or individual served with such an order to challenge the temporary order within ten days in

U.S. District Court, the Bank Board cannot simply state that the violation is one that may produce serious losses. Instead, it must stand ready to prove those losses in court at the time it serves the temporary order on the institution. The result is a loss of valuable time while the Board gathers proof of insolvency or substantial losses, even though we know through facts gleaned from our examination process that a serious problem exists at an institution. To correct this situation an amendment is needed to remove the modifiers of "substantial" and "serious" before the findings of "dissipation" or "weakness" in such emergency cases.

Another integral part of the needed improvements to our cease-and-desist authority is the addition of a new provision which would enable the Board to issue a temporary order to halt an institution's making of new loans or investments whenever we are unable to determine the true financial condition of an institution, despite the efforts of our examiners, because of the disarray in, or lack of, books and records. Deficient recordkeeping has been a recurring theme in the more serious thrift failures over the last two years and exacerbates the difficulties encountered in resolving insolvent institutions. The poor quality of, and often lack of, books and records in such cases is the unfortunate by-product of the cycle of excessively rapid growth of savings deposits and the rush to place those deposits into potentially high-yielding, but also high-risk loans. Such an addition would empower the Board to halt any new lending by an institution until the institution's books and records are in an acceptable condition -- sufficiently in order for our examiners to determine the financial condition of the institution.

We also advocate several other changes to the existing cease-and-desist authority to close loopholes and clarify the present statutory language. These amendments include stating clearly that the agency may bring enforcement actions against second-tier and partly-owned subsidiaries of insured institutions, including those that are wholly-owned by several thrifts. The amendments would also clarify that the Board has the power, at the conclusion of cease-and-desist proceedings, to order affirmative corrective actions such as restitution, rescission, the disposal of loans, and guarantees against loss, to correct the conditions caused by unsafe and unsound practices and violations of regulatory requirements.

Another key area for legislative improvement is the Board's removal and prohibition powers. It is unfortunate, but in many cases true, that it is more difficult to meet the statutory grounds for removing a banker or thrift official from office than meeting the grounds required to convict him of a criminal offense. Because we respect the constitutional right of each citizen to due process of law, we are requesting only modest changes to the removal statute in our proposed legislation despite our strong desire to act quickly to remove negligent or wrongdoing thrift officials. These changes include: (1) a clarification of who may be removed and/or prohibited as well as when the action may be brought, to avoid claims that the agency loses jurisdiction when a person resigns before a removal action is complete; (2) a removal of the modifier "substantial" before a finding of financial loss to an institution is the second ground required for maintaining a removal case; (3) a recognition that harm to shareholders of a stock institution as well as to members of a mutual association should be considered in removal cases; and (4) a change that makes the grounds for removal of an official from a second institution for misconduct at another institution the same as the grounds for a direct removal from the first institution.

In addition, we need legislation which would continue and broaden the industry ban that presently exists for individuals who have been removed. Currently, a thrift official removed from one FSLIC-insured institution may not serve as a director, officer, or employee of another FSLIC-insured institution, although he or she may work for an FDIC-insured bank or a NCUA-insured credit union without penalty. We propose an expansion of the existing ban not only to prohibit a removed individual from working in FSLIC-insured institutions, but also to prohibit an individual removed by an agency from employment in any type of insured financial institution without the prior approval of the appropriate regulatory agency.

The third key element to the legislative strengthening of the Board's enforcement authority is an amendment clarifying the reach of the Board's enforcement powers by specifying in new definitions the institutions and individuals who may be subject to administrative enforcement proceedings. We will ask for specific legislative authority to define by regulation an unsafe or unsound practice so that we can move much more quickly against poorly run, imprudently operated institutions and prevent, earlier on, expensive losses to the FSLIC fund.

The adoption of these necessary changes will provide the Board with the needed flexibility and tools required to deal with an increasingly complex industry and its problems before the problems become very costly disasters for the FSLIC fund.

2. POWERS OF STATE-CHARTERED THRIFTS

As the head of the FSLIC, the Bank Board is dedicated to assuring sound operating procedures and investments by thrifts within the housing specialization Congress created and mandated for the industry. The FSLIC is faced with the task of underwriting risks and investments which Congress never contemplated when it created the thrift regulatory structure, largely as a result of vastly liberalized state empowerments for thrifts. Some state legislatures have gone well beyond the confines of those activities Congress found suitable for federal deposit insurance as recently as the additional powers granted in the Garn-St Germain Act of 1982. These states have enabled their own state-chartered savings institutions to go into all manner of "entrepreneurial" endeavers, irrespective of the risk of loss to the financial underwriter of such activities. Yet these same state legislatures require their entrepreneurial empowered state-chartered thrifts to be federally insured. These same states never are called upon to pay a penny of loss when even one of their state-chartered thrifts fail. Thus, any risk of loss is effectively transferred from their own treasuries to the FSLIC. At a time when the resources of the FSLIC are under tremendous strain, and when more states appear to be moving toward additional state thrift powers, we believe it is important that any deposit insurance reform enable the insurer to better underwrite the risk of loss to the reserves of the deposit insurance fund.

The Bank Board does not quarrel with the prerogatives of states to establish the nature and extent of activities which their own state-chartered institutions may be permitted to engage in. We do believe, however, that the federal deposit insurance system for thrifts -- namely the FSLIC -- should be able to determine the manner in which such activities are underwritten for risk of loss to the fund. To achieve a balance between the two competing interests, I believe Treasury Under Secretary Gould's recent suggestion -- that those state-chartered thrift activities which go beyond what Congress has authorized for federally-chartered institutions be allowed only in holding company subsidiaries -- is a particularly interesting one and deserves consideration by the Congress. Under Mr. Gould's proposal, rather than restricting the activities of some state-chartered thrifts whose powers greatly exceed those of federally-chartered institutions, these institutions would be authorized to engage in these "extra-federal" activities. His quid pro quo for the prerogative of doing so is simple: do it in a subsidiary of a holding company. This would very significantly insulate the FSLIC from any risk of loss deriving from activities or asset baskets not specifically authorized for thrifts by the Congress.

In my own view, Under Secretary Gould is suggesting a variation on the conceptual idea the Bank Board has addressed in its risk premium approach.

The Bank Board's risk premium scheme would underwrite the risk of loss by pricing it accordingly, and would reduce risk premiums in inverse proportion to an institution's net worth.

In my own opinion, each of these approaches has merit, though some will disagree.

The risk-based capital approach being offered by some differs in that basically the higher the capital of an institution, the more activities that institution may engage in. Stated another way, the higher the capital to cover losses, the greater the ability to engage in riskier types of activities. Each of these approaches constitutes a form of insurance risk underwriting.

We find the risk-based capital approach to underwriting risk to have considerable merit also, and we do not find it mutually exclusive of the risk premium approach, especially in the case of activities which extend beyond, and in some cases well beyond, what Congress found suitable for federal thrifts.

Mr. Gould's proposal, in my own view, would further encourage institutions in mutual form to convert to stock form. This, too, would have the advantage of bringing in new capital to converting mutuals. This is consistent with the Board's actions to encourage greater capital in the industry.

I believe capital must be restored to improve the long-term health of the industry. In connection with this goal, the Board supports two legislative amendments as additional incentives to federally-chartered institutions to increase their net worth levels. First, I believe that federally-chartered thrift institutions which meet or exceed a net worth level to be determined by the Bank Board (such as five or six percent) should be able to invest 5 percent of their assets in service corporations. Second, I believe that Congress should clarify and affirm the Board's authority to determine the appropriate activities of federal service corporations by regulation, including the ability to closely correlate the types of service corporation activities with certain net worth levels to be maintained by the insured parent. Our ability to provide for pre-approved service corporation activities since the Garn-St Germain Act of 1982 has been constrained by the legislative shadow of the conference statement that the Bank Board "should not approve, in the absence of clear and specific Congressional authorization, any new regulation expanding activities of service corporations other than to permit service corporations to engage in activities permitted for federal thrift institutions."

3. VALIDATING THRIFTS' UNIQUE MISSION

After long and careful deliberation, the Task Group on Regulation of Financial Services headed by Vice President George Bush unanimously agreed that savings institutions are indeed different from commercial banks, and that a separate thrift industry is a vital force in the nation's housing finance system. The Task Group recommended that "a portfolio test should be established to determine whether an institution is, in fact, essentially engaged in traditional specialized thrift activities."

Thrift institutions have been the single most important private sector force for making America a nation of homeowners throughout the years. Helping them to renew their strength so that they can continue to serve the housing finance and related needs of American families, while at the same time building on the time-honored concepts of safety and soundness, are the fundamental goals of this Bank Board. To this end, establishing an asset composition test will provide the most equitable and realistic means of preserving the specialized functions of thrifts by distinguishing such institutions and extending to them unique regulatory benefits based on their commitment to housing finance and other housing-related investments.

The Bank Board continues to urge adoption of an asset composition test which serves as a benchmark for thrift eligibility for ownership by diversified companies, access to Federal Home Loan Bank System advances, and access by state-chartered thrifts to FSLIC deposit insurance. I believe such a test is a critical supplement to our suggested reforms to thrift deposit insurance because it reflects the reality of the distinctive marketplace functions of thrifts and banks. Such a test also provides an additional fair and practical means to assure that only those institutions with a substantial commitment to housing finance will continue to function within a framework specifically fashioned by law to aid their mission.

Every thrift should be able to pursue diversification options. But if diversification involves discarding home finance as the principal mission, an institution should not be allowed to compromise the purpose of the separate thrift regulatory structure by freely availing itself of that structure's special benefits. An appropriate asset test would resolve this problem by denying future bank-like thrifts the benefits which should be preserved exclusively for institutions dedicated principally to housing finance and housing-related investments.

At the same time, such a test would reaffirm the intent of the Garn-St Germain Act "to revitalize the housing industry by strengthening the financial stability of home mortgage lending institutions and insuring the availability of mortgage loans."

I believe the asset composition test included in the Board's legislative package will insure a significant and continuing emphasis on home finance by those lenders which seek the benefits of the unique home finance regulatory framework. Under the test, a "qualified thrift lender" would have to maintain at least 60 percent of its assets in specific housing and housing-related investments and certain liquid assets. An institution which failed to maintain that status would be ineligible to regain it for a period of five years. Mutual savings banks would be allowed a 20 year period to phase up to the 60 percent investment requirement.

While the current "thriftness" test established by Section 7701 of the Internal Revenue Code and used to establish eligibility for unitary ownership by the Garn-St Germain Act serves as the guidepost for the test in our legislation, our new test would also include certain new qualifying assets we believe vital to allow flexibility to thrift managements to develop their own housing focus. These would include liquid assets qualified under Section 5A of the Federal Home Loan Bank Act, loans, equity positions or securities related to residential real estate, investments in mortgage-related securities, and investment in all shelter providing facilities such as nursing homes and student dormitories. Because our legislation would afford the FSLIC broad authority to interpret and regulate regarding the qualifying asset test, the Bank Board could address any potential misuse of this "laundry list" -- such as excessive concentration in liquidity items -- by imposing limits on particular types of investments.

We are firmly convinced that the liquid assets included in this definition are a crucial component of any thriftness test. Maximum flexibility in this regard is absolutely vital to allow a thrift to manage liquidity effectively in volatile economic conditions, and make investments closely related to its home financing function. The

Federal Home Loan Bank Act already requires its members to hold such liquid investments at a level between four percent and ten percent as determined by Bank Board regulations.

Our proposal also authorizes the Bank Board to accord some level of credit to thrifts which support housing through originating loans and selling them in the secondary market, while generating servicing fee income. The proposal authorizes the Bank Board discretion in setting an appropriate level of credit. Thrifts which have a substantial portfolio investment in home loans as well as significant secondary market activity should not be arbitrarily deprived of qualified status. This flexibility will also aid managers to cope more effectively with changing economic conditions which may dictate higher levels of secondary market activity as a means of offsetting loans arising from maturity mismatches which are a continuing threat to the thrift industry.

The Board's proposal provides a qualifying averaging period of three out of five years. We believe that this longer qualifying averaging concept is appropriate given the vagaries of housing demand and the sensitivity of the industry to rate swings. The three out of five year concept is also a crucial supplement to the liquidity and secondary market provisions of our legislation and would further aid institutions in dealing with volatile conditions in a rapidly changing marketplace without the penalty of disruptive changes to holding company activities or constraint on access to Federal Home Loan Bank advances.

4. TANDEM OPERATIONS

The Bank Board continues to have serious concerns that the current "in tandem" language of H.R. 20, if enacted, could seriously prejudice the thrift industry's ability to remain viable competitors in the financial services arena. We are concerned that this provision could cripple the benefits of capital development and diversification long provided thrifts through affiliation with unitary savings and loan holding companies.

The "in tandem" provision we will include in our legislative package is intended to alleviate our concerns about the role and risk to the FSLIC fund posed by non-financial firms effectively usurping federal insurance for all manner of retail and investment products, while at the same time preserving certain "in tandem" operations if the affiliate engages only in activities permissible within a multiple holding company. Moreover, a unitary holding company-owned thrift and its affiliates would continue to have the ability to cross-sell credit or managerial services in a variety of situations where such marketing is an efficient means of increasing financial strength and profits related to traditional thrift activities throughout the holding company structure.

This provision would allow the Bank Board to deal with adverse effects arising from the cross-selling by a savings and loan holding company and its affiliates of their goods and services on a specific case-by-case basis. Those activities which the Board determines cause adverse effects such as conflicts of interest or unsound practices would be prohibited.

5. RECEIVERSHIPS

Our legislative package provides increased clarity regarding the FSLIC's authority for appointment of a receiver for failed institutions based on an express statutory authority to further define "unsafe and unsound condition to transact business" and "substantial dissipation of assets". These provisions would also establish priorities of unsecured creditors against a receivership estate, and would permit the FSLIC to receive reimbursement for amounts paid to insured depositors before uninsured depositors are paid.

VI. CONCLUSION

I look forward to working closely with the members of this Subcommittee to revitalize the financial resources of the FSLIC and assist thrift industry's continued progress. Your continued support and confidence is critical to the process. A great many actions must be taken -- and taken soon -- to strengthen national thrift system.

I will be pleased to answer any questions you may have.

APPENDIX A

Federal Home Loan Bank Board

EDWIN J. GRAY
CHAIRMAN

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

JAN 27 1986

Mr. Craig Simmons
Associate Director
U.S. General Accounting Office
Room 3858A
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Simmons:

After carefully reviewing the GAO report entitled "Thrift Industry Problems--Potential Demands on the FSLIC Insurance Fund," I am concerned that the report, perhaps inadvertently, overstates the problems facing the FSLIC. Specifically, on page 4, the report states that the financial condition of nearly 1300 FSLIC insured institutions is weak. To imply that over 42 percent of the industry is likely to require some form of FSLIC assistance seriously distorts the magnitude of the problem. I fear that if such an overstatement were to become public it could seriously worsen the actual situation.

The report's tendency to overstate the size of the problem partially results from its lack of a clear definition of what constitutes a problem institution. While this is a difficult task, such a characterization must be specified before the number of potential problem cases can be estimated. From our own perspective, there are at least three variables that should be weighed before an institution is considered a potential problem case. The level of net worth is clearly an important factor. The report devotes substantial effort to justify its focus on the GAAP measure of net worth. The primary distinction between RAP net worth and GAAP net worth is that the former allows for a gradual amortization of losses while the latter requires an immediate reduction in earnings, and thus net worth, for assets sold at a loss. RAP accounting removed the accounting deterrent inherent in GAAP to portfolio restructuring. Thus, by encouraging thrifts to remove underwater assets from their books, RAP accounting has allowed many thrifts to restructure their portfolios and significantly improve their long term viability. Therefore, while the current level of net worth is important, an equally important factor is a firm's future earning potential. This potential can be approximated by the firm's current reported earnings and its latest supervisory rating. The supervisory rating provides an indication of the underlying quality of the firm's assets and management. Note these variables only indicate potential problem cases and do not imply that an institution will necessarily require FSLIC assistance.

On page 4, the report states that if GAAP-insolvent thrift institutions were recovering, the level of concern over the condition of the industry and its implications for FSLIC would not be high. The report proceeds, however,

to ignore this statement and to analyze the potential cost to the FSLIC from liquidating or merging all GAAP-insolvent institutions. Thus, in Tables 3 and 4, on pages 16 and 17, the GAO report provides figures on the number of insolvent and low-net-worth institutions. Then, on page 5 and in Table 5 on page 18, the report estimates the potential losses for the FSLIC from liquidating or merging these insolvent institutions to be between 5 and 23 billion dollars. To suggest that all GAAP-insolvent institutions will require FSLIC assistance is simply inappropriate. As I have already indicated, such an approach ignores future earning potential and thus tends to dramatically overstate the size of the problem.

A more reasonable approach is the one used in Table 6. This table identifies the number of insolvent and unprofitable institutions, then estimates the potential cost of resolving only these cases. Contrary to statements on page 1 of the report, only half of the insolvent thrifts were unprofitable during the first half of 1985. Table 6 identifies 239 GAAP-insolvent institutions that were unprofitable for the first half of 1985. These institutions, representing less than 8 percent of the industry, could be considered weak and potential problem cases for the FSLIC. This number is significantly less than the 1,300 institutions with assets of $433 billion, or 42 percent of industry assets reported in the GAO document. Thus, while the numbers used in the other tables are accurate, I feel they substantially misrepresent the current situation. Furthermore, since these figures are thoroughly discussed before those in Table 6, I believe they overshadow this more reasonable approach.

While the GAO report explains on page 2 why it does not examine the resources available to the FSLIC, such an omission inherently raises doubts as to the adequacy of FSLIC resources. By simply suggesting possible resolution costs, the report ignores the potential for future revenues and the ability of the FSLIC to find no-cost resolutions to many of the cases. For example, some of the cases may be resolved through voluntary or non-assisted mergers and therefore cost very little to the FSLIC. This approach is projected to reach close to 100 institutions over the next year, further reducing the number of potential institutions that may require FSLIC assistance to under 200 firms.

The report also does not acknowledge that numerous techniques exist for replacing the current managers of weak institutions and thereby limiting any growth of the problem. The MCP program, for example, provides a mechanism to assist insolvent and unprofitable thrifts in an effort to reduce further deterioration. Once the growth of the problem has been stopped, various techniques are available to defer the need for FSLIC to make immediate cash outlays. This postponement allows the FSLIC time to accumulate substantial resources from premium income and investment income. Premium income is projected to be approximately $1.89 billion in 1986 and $2.08 billion in 1987 if the special assessment of one-eighth of 1% is continued. Investment income should generate almost one-half billion dollars a year.

The report further fails to include the significant lines of credit available to the FSLIC. The FSLIC may borrow from any of the twelve Federal Home Loan Banks, limited by the financial capacity of the Banks and the willingness of each of their Boards of Directors to authorize funds to FSLIC.

The Federal Home Loan Banks have assets of over $100 billion and are capitalized at close to 9 percent. Furthermore, the Bank's assets are substantially over collateralized. This strength allows them to borrow money at rates slightly above Treasury rates. To date, the FSLIC has borrowed $900 million from the FHLB's which has been passed through FSLIC in collateralized loans from which the FSLIC expects to experience no financial losses. Given a prudent expansion of the Banks' capital base, over an extended period of time, five years for example, this device could provide the FSLIC with up to five billion dollars. FSLIC also has a direct line of credit from the U.S. Treasury in the amount of $750 million. This line was established by legislation in June 1950 and has never been used.

The report's analysis on page 6 and in Table 9 of the effect of a 1 percent assessment is especially distorted. The report states "FSLIC and the Bank Board have the power to levy a supplemental insurance assessment on their constituent institutions equal to 1 percent of deposits... Such an assessment would increase fund reserves by roughly $8 billion." The FSLIC may "assess" an amount equal to one-eighth of one percent of accounts in any single year to meet losses of the FSLIC. The statutory provision for a call equal to one percent of accounts, however, provides for a deposit which would be a debt of the corporation. This call would improve the FSLIC's liquidity, but would not affect its net balance sheet position. Thus, the reserve or equity position of the FSLIC would not be increased by $8 billion or by any amount under the Bank Board's statutory authority to make a call equal to one percent of accounts. Also, institutions would not become insolvent as a result of the call since they would now have a FSLIC asset on their books. Their net position would be unchanged. If the report is suggesting a levy comparable to NCUA powers, it is important to note that the Bank Board does not have such powers.

In summary, while the raw data base for this report is accurate, its utilization distorts the magnitude of the problem facing the FSLIC. It also seems inappropriate to suggest a dollar cost of resolution without exploring the specific method of resolution. Furthermore, to examine only the cost of resolution without examining the sources of revenue ignores a vital aspect of the overall nature of the problem. Finally, it also should be mentioned that the industry has had two very profitable quarters not included in this report, and that the industry on a market value basis recently turned positive for the first time in a number of years.

I trust you share my concern that the magnitude of the problem facing the FSLIC not be, perhaps inadvertently, overstated. Such an overstatement could only serve to worsen the actual situation. I believe that an accurate portrayal of this problem is necessary for the Congress to formulate as it may choose a[illegible] legislative response.

Sincerely,

Edwin J. Gray

Appendix B

Title II of the Garn-St Germain Act provides the thrift industry with assistance in managing their financial problems while the industry is restructuring. The Act established a three-year program whereby the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) may purchase "net worth certificates" from troubled depository institutions in exchange for promissory notes according to a prescribed formula that covers a partial portion of losses. The certificates are considered capital, and for that reason would increase the net worth of the affected institutions. This assistance does not require cash outlays, however, unless an institution defaults. This program is intended to provide thrift institutions that are otherwise well managed with a way to improve their net worth positions until the temporary losses caused by inflation, high interest rates, and over-regulation can be brought under control.

Figures contained in Appendix IV of the 7/3/85 GAO report, titled "Federal Banking Agencies are Adequately Examining Net Worth Certificate Program Applications," showed that the aggregate regulatory net worth and the aggregate regulatory net worth without net worth certificate assistance of 51 FSLIC-insured institutions with net worth certificate assistance outstanding as of June 30, 1984, and which had participated in the Bank Board's net worth certificate program since its inception in December 1982, had decreased by 8.8% and 23.2%, respectively.

As of June 30, 1985, four of the 51 institutions included in the GAO study had merged into other institutions, and two institutions had been acquired by other institutions subsequent to June 1984 but prior to June 1985. As shown by Table 1 to this Appendix, the aggregate regulatory net worth of the 45 institutions remaining had increased 19.0% from June 1984 to June 1985 and 8.5% from December 1982 to June 1985, while their aggregate regulatory net worth without net worth certificate assistance had increased 19.8% from June 1984 to June 1985 but had decreased 8.1% from December 1982 to June 1985. Table 2 to this Appendix shows the recent positive effects of net worth certificate assistance on the net worth and net operating income of four participating institutions.

The original intent of the net worth certificate program was to give institutions time to restructure their balance sheets to lessen the asset/liability mismatch. The improvement in the regulatory net worth position, with and without net worth certificate assistance, from June 1984 to June 1985, of the remaining institutions included in the GAO study indicates that the program has not failed but is, in fact, working as intended. Therefore, we believe that this evidence supports our contention that the program should be extended so that institutions operating in the currently favorable interest rate environment can be given additional time to restructure their balance sheets.

In administering the net worth certificate program, the Bank Board has sought to minimize potential exposure of the FSLIC fund. As a result of this and lower interest rates, not all eligible institutions have applied for the program. Should interest rates rise in the future, however, the net worth certificate program would be a valuable emergency tool both in terms of delaying eventual failures and allowing time for restructuring to alleviate pressures on the fund to provide cash assistance. The Board thus strongly urges Congress to extend the net worth certificate program.

Table 1

Regulatory Net Worth for FSLIC-insured NWC Institutions
for December 1982, June 1984, and June 1985

	December 1982 ($ mil.)	June 1984 ($ mil.)	June 1985 ($ mil.)	$ change Dec. 1982 to June 1985	$ change June 1984 to June 1985
Regulatory net worth NWC institutions	260	237	282	8.5	19.0
Regulatory net worth without NWC assistance NWC institutions	211	162	194	-8.1	19.8

Sources: December 1982 and June 1984 figures are from Appendix IV of 7/3/85 Report (GAO-GGD-85-33) and include 51 institutions identified by GAO/GGD. June 1985 figures are from the FHLBB Quarterly Report System and include 45 institutions (51 above, minus 4 merged into other institutions and 2 acquired by other institutions subsequent to June 1984 and prior to June 1985).

Table 2

POSITIVE EFFECTS OF NET WORTH CERTIFICATE ASSISTANCE
(As of 12/31/85; dollars in millions)

Institution	Total Assets	Amount of Net Worth Certificates	Regulatory Net Worth As a percent of Assets			Net Operating Income		
			3/31/85	12/31/85	% Improvement	3/31/85	12/31/85	$ Improvement
Milford FS&LA Milford,MA	$142	$0.150	2.60%	3.77%	1.17%	$0.385	$0.798	$0.413
State Savings,FA Jackson Heights, NY	$312	$0.425	3.36%	3.99%	0.63%	$1,326	$1,952	$0.626
Columbia FSB Woodhaven, NY	$951	$0.250	3.60%	5.04%	1.44%	$0.926	$3,757	$2,831
First FS&LA Missoula, MT	$ 64	$0.100	2.49%	2.83%	0.34%	$0.031	$0.123	$0.092

Appendix C

MUTUAL-TO-STOCK CONVERSIONS
1972 - 1985

	FILED		APPROVED		COMPLETED	
Year	Yearly	Cumul Total	Yearly	Cumul Total	Number	Amount of Stock Sold (in millions)
1972-1974	31	31	0	0		
1975	6	37	6	6	1	1.3
1976	29	66	15	21	14	50.9
1977	25	91	10	31	14	29.6
1978	21	112	4	35	5	13.5
1979	42	154	17	52	15	114.4
1980	51	205	46	98	16	141.4
1981	57	262	39	137	37	126.6
1982	35	297	34	171	31	123.0
1983	115	412	108	279	83	2,734.0
1984	88	500	100	379	95	711.0
1985	52	507*	61	404**	76	1,384.0
			TOTAL		387	5,438.0

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* Adjusted for applications removed from the program.

** Thirty-six conversions were discontinued and the stock was not sold.

Appendix D

FSLIC Insured Institutions

	September 30, 1985				January 31, 1986	
	NUMBER			ASSETS (in Billions)	NUMBER	ASSETS (Billions)
	Fed'l	State	Total			
MUTUAL	1355	819	2174 (67%)	$ 464 (45%)	2150 (66%)	469 (44%)
STOCK	355	693	1048 (33%)	577 (55%)	1098 (34%)	601 (56%)
TOTAL	1710	1512	3222 (100%)	$ 1,041 (100%)	3,248 (100%)	1,070 (100%)

As you can see from this table, the assets of the stock institutions continue to increase at a rate disproportionate to the ratio of stock institutions to mutual institutions.

Mr. GRAY. If it would be appropriate, I would like to ask several of my staff members to join me. They may be a little help in that way.

Chairman ST GERMAIN. That's perfectly acceptable, proper and in keeping with the traditions of the committee. I will just ask that they identify themselves if, indeed, they are called upon to answer some questions.

Mr. GRAY. Would you like me to introduce them?

Chairman ST GERMAIN. Yes, that would be helpful.

Mr. GRAY. This is Harry Quillian, the Acting General Counsel.

Chairman ST GERMAIN. Excuse me. Let's start slowly. The reporter has to get this very accurate information. This is going into the annals of history. I mean, these people are going in the history books right now.

Mr. GRAY. All right. We are making history.

Chairman ST GERMAIN. His name is what?

Mr. GRAY. Harry Quillian.

Chairman ST GERMAIN. Harry Quillian. Would you spell your name for the reporter, please.

Mr. QUILLIAN. Q-u-i-l-l-i-a-n.

Chairman ST GERMAIN. And you are Acting General Counsel?

Mr. QUILLIAN. Yes, sir.

Mr. GRAY. Robert Sahadi, who is the Acting Director of the Office of Policy and Economic Research.

Chairman ST GERMAIN. That's S-a-h-a-d-i?

Mr. GRAY. S-a-h-a-d-i. Frank Passarelli, who is the Acting Director of the Office of Examination and Supervision.

Chairman ST GERMAIN. Would you spell your name for the reporter, please?

Mr. PASSARELLI. P-a-s-s-a-r-e-l-l-i.

Mr. GRAY. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Gray, on page 3 and 4 of your statement you provide a clear and helpful assessment of the FSLIC's funding needs. And as I understand the data, there are 216 thrifts that are likely to need FSLIC assistance. Moreover, you are now applying a 20-percent asset write-down fact to get the dollar amount of needed funds. The result is an estimated funding need of $16 billion. To be on the safe side, you are rounding that estimate up to $20 billion. This seems to be a more pessimistic estimate than we heard last October, when you last appeared before our subcommittee.

Now has the situation worsened since that time? And if so, how sure are you that your current estimate of FSLIC funding needs is accurate?

Mr. GRAY. Mr. Chairman, one of the most difficult things for the Bank Board and the FSLIC to do is try to determine in advance what the resolution costs will be for any particular case. It has not developed into a science. What we are trying to do is to find a way to deal with the problems as we believe they will probably develop, in terms of resolution costs. Obviously, the cost could be lower or it could be greater, depending on a lot of factors which are, at this point in time, unknown.

I think the time that has elapsed since the October 17 hearing has given the Bank Board and the FSLIC the opportunity to further refine our estimates, and these are the best estimates that we can offer the subcommittee today.

Chairman **St Germain**. Now the net worth certificate program is due to expire on April 15, and our understanding is that the amount of net worth certificates outstanding at yearend, December 31, 1985, was approximately $230 million, whereas the amount of income capital certificates was $1.5 billion.

Now given the fact that the income capital certificate program accomplishes virtually the same purpose, or so many people feel, as the net worth program and has been used, obviously, so much more, why do you feel, if you do, that the net worth certificate program should be extended?

Mr. **Gray**. Mr. Chairman, in trying to follow through with the intent of the legislation, it seems to me that there is a significant difference in our view. In the case of income capital certificates, the emphasis on providing net worth certificates for interest rate spread problems, in order to help institutions restructure their portfolio is not present when income capital certificates are issued. And in many cases, the income capital certificates go to institutions in distress which have severe asset quality problems.

So essentially what we are saying is that, consistent with our understanding of the intent of Congress, we have pursued the net worth certificate program to help those institutions which it seems to us need this kind of assistance to deal with more temporary problems relating to restructuring of their portfolios.

Chairman **St Germain**. Ms. Oakar.

Ms. **Oakar**. Thank you, Mr. Chairman. I want to ask Chairman Gray about his letter to the Associate Director of the General Accounting Office. We did have a hearing on the report that was asked by Representative Parris, in which GAO illustrated fairly definitively the potential demands on the FSLIC Insurance Fund. In your letter, Mr. Gray you indicate that the GAO overstated the problem.

Would you be a little more definitive about that, because that report is rather challenging. If this report is accurate, we sure better get busy quickly.

Mr. **Gray**. As we have indicated in the prepared statement, the GAO report is based on an analysis that only takes into account GAAP net worth, and it does not take into account an equally important factor, which is an institution's future earnings potential.

Our analysis of the numbers in the GAO report indicates that less than 8 percent of the industry should be considered potential problem cases for the FSLIC, that is, to say, requiring FSLIC assistance, which is certainly significantly less than the 1,300 institutions with assets of $433 billion or 43 percent of industry assets reported by GAO.

Second, I feel strongly that, based on the performance of the industry last year, that the numbers which otherwise might have gone into the GAO report did not. Therefore, the view that was painted was rather more pessimistic than our own figures. We are in a position to look at these institutions on a case-by-case basis, as regulators, to determine what we believe the situation is. And it is for that reason that I believe the GAO report seriously overstated the magnitude of the problem. That is not to suggest, however, that there is not a real problem out there. We believe that we have the ability to look very closely at these problem institutions and come up with the kind of figures that are, frankly, more realistic, in terms of how the FSLIC will be expected to deal with them.

Ms. OAKAR. I think it is important that the public have confidence. Your statement does indicate that this has been a record year for many institutions in profitability, which is the good news.

I want to shift gears a little bit, although I would like you to state for the record what the 8 percent that you just mentioned represents. Do you have any concerns that some of the institutions, S&L's, do not allow equal access by average consumers. Specifically, I am talking about those institutions that say they will cater to customers that have $100,000 or more in the institution or possibly less.

Does that concern you that the industry may become inaccessible for moderate- to middle-income consumers?

Mr. GRAY. I would certainly hope not, and I will tell you why. The jumbo accounts that larger investors, if you will, place in savings institutions, all too often represent hot money. There's no stable base to that kind of money which comes into an institution, and all too often, particularly where an institution has lower levels of net worth or is in a distressed category, that institution will tend to pay higher rates than it ought to——

Chairman ST GERMAIN. Mr. Gray, I have to interrupt. I don't think that that is the type of situation she is referring to, these institutions that want to just cater to the upscale customer.

Mr. GRAY. Right. But what I am——

Chairman ST GERMAIN. You are talking about jumbo certificates. That's not what she's talking about.

Mr. GRAY. Well, perhaps I am——

Chairman ST GERMAIN. Why don't we ask the Congresswoman to rephrase the question?

Mr. GRAY. No; when we approve applications for insurance of accounts. Savings institutions are publicly chartered. They serve a public purpose. One of the important public purposes is to serve savers with small amounts of funds to invest.

And I think to the extent that there would be an overemphasis on savers that have larger amounts of money in place.

Ms. OAKAR. Well, let me just say very briefly—and I thank the Chair for the clarification—there have been a number of advertisements recently by some S&L's that are catering to the upper crust. In addition to that, consumers are very concerned about these unbelievable charges for every little thing.

One of my staff people had a savings account of less than $500—I think it was $495—and every month instead of getting 5.5 percent he was losing money on the account.

It is happening all over the country.

Are you prepared to issue some guidelines to some of these institutions—not all certainly but some that are antiaverage consumer. Interestingly, Americans save so much less than Japan and Western European countries.

Mr. GRAY. I must be honest that I am probably not prepared at this moment to say anything other than I will certainly look into it.

But I would just add—and I hope this is somewhat responsive to your question—it is in the interest of the savings institution itself to build a retail savings base, which generally consists of appealing to families and individuals who have less money to place. That is in the interest of the institution itself.

Ms. **OAKAR**. The problem is that if people don't look at their receipts—or their statements at the end of the month and don't examine them very closely, they may not be aware that they are charged all these fees. And they are very creative fees that are being dreamed up, but they are disincentives for people and prevent accessibility to the industry. I would hope you look into that. Some of us have a few remedies in mind.

I appreciate your comment.

Thank you, Mr. Chairman.

Chairman **ST GERMAIN**. The gentle lady has just brought something to mind—there is an institution in Connecticut that I read about recently—I don't know where Stu McKinney is—but I think they have two employees at this newly chartered commercial bank. And the reason they have only two employees is that they are really catering to, as the gentle lady said, the upper crust.

Mr. **GRAY**. Yes.

Chairman **ST GERMAIN**. By golly, do you know that we gave them a charter and we are insuring those deposits? I am going to have our staff start looking into this because I don't think that institution is entitled to FDIC insurance, and I think that if it is entitled that the same should apply if we get S&L's that decide to go the ultra route.

So, let's pull their insurance. Either you serve the community, all the community, or you don't get the insurance.

I apologize, Mr. Leach, but it just gripes me when I read about these innovative ideas, where they take advantage of deposit insurance but don't serve the public.

Mr. Leach.

Mr. **LEACH**. Thank you, Mr. Chairman.

Let me welcome you, and I find you in an ironic position of saying the industry is stronger than someone alleges on the outside. But I think you have got a very good point, and you have led the executive branch as well as Congress in pointing out problems within your industry.

Let me just raise two questions on coordination. There has been talk for a dozen years or so that the FSLIC and the FDIC ought to be combined. There are pros and cons to that.

But forgetting that issue for a second, I am wondering how closely the FDIC and the FSLIC are coordinating approaches toward recapitalization. Both institutions may need it. How carefully are you coordinating with the FDIC to ensure that there aren't competitive advantages or disadvantages that flow to one type of institution versus another.

And, second, how closely are you coordinating with the Treasury? With the lowering of interest rates that's coming onstream, is this not a propitious time to think very seriously of recapitalizing the funds on both a national competitive basis; that is, the FDIC and FSLIC working together as well as in coordination with the European capitals?

Mr. GRAY. Let's see, your question relates to recapitalization basically then?

Mr. LEACH. And coordination between the two funds.

Mr. GRAY. Coordination with the FDIC, the Fed, and the Comptroller of the Currency continues. We meet regularly, not only in our exam council sessions but also in other ways, to discuss our common problem and common approaches such as how we deal with the end of the Depository Institutions Monetary Control Act of 1980, which ends on March 31. We consult with each other on that.

Mr. LEACH. Well, let me say, I am not so worried about whether you talk to each other.

Mr. GRAY. Right.

Mr. LEACH. But when you develop a proposal on FSLIC recapitalization, are you developing it in conjunction with the FDIC or do you do it on your own, and shouldn't this be a time period in which the two groups work particularly closely together?

Mr. GRAY. Well, we want to work very closely, and I believe we do. I have not heard any discussion from my colleague, Mr. Seidman, regarding recapitalization of the FDIC.

Of course, we have been talking about it for some time. We have a different kind of system, in that it is an integral system with the Federal home loan banks playing this hand-in-glove role with the FSLIC and the regulatory function, and therefore there is considerable strength in the System as a whole.

The FDIC does not have that kind of series of components on which it is relying.

But I guess I am probably somewhat unprepared to answer simply because there has been no discussion that I have heard of coming from the FDIC.

Mr. LEACH. Well, then let me just raise that as a concern.

Second, there is a footnote to it that has something to do with my State disproportionately. There is a proposed FSLIC legal ruling that changes the way in which wrap-around annuities are to be insured.

The FSLIC may well be correct in its interpretation but what concerns me is the FDIC is giving it a different insurance interpretation, and so what you might be seeing, is a potential deposit flow from one institution to another based upon differing insurance interpretations.

And I raise that because on the one hand there is an inequity, on the other hand there is a potential confidence problem in the FSLIC System based upon letters that are going to explain this to customers.

Mr. GRAY. I see.

Mr. LEACH. And I would only urge you, as Chairman of the Federal Home Loan Bank Board, to raise this with your FDIC counterparts as well as FSLIC to seek uniformity of treatment.

I don't care how the treatment comes out, but I would strongly urge uniformity.

Finally, let me just raise one other issue, and it relates to what the chairman talked about just a second ago, and that is one of the problems of insurance coverage when you have different institutions with differing views of community participation.

I think the real issue concerns institutions within the savings and loan system that are rather aggressively managed versus more conservatively run institutions. One possibility that I think ought to be considered by the committee as well as regulators is to have differing levels of insurance for different levels of risk.

I mean, one of the boons to aggressive risk-taking institutions is the $100,000 insurance, and perhaps we ought to consider setting up standards by which there is a lower insurance coverage for weakly capitalized institutions or those that don't abide by the same constraints of conservative institutions.

Is that given much consideration?

Mr. **Gray**. To be honest with you, we have not considered a variable level of deposit insurance to be offered on that basis.

What we have proposed or what the staff is preparing now is an approach which would move our capital standards overtime up to 6 percent, which is the current bank standard. We also have already begun the process of moving closer to GAAP overtime.

Mr. **Leach**. I certainly appreciate that, and I think you are making precisely the right move, and that is a vastly preferable issue.

But then there are some institutions that are being maintained in existence with not only minimal but negative net worth situations.

Mr. **Gray**. Yes.

Mr. **Leach**. And in those situations I am wondering if withdrawing their insurance coverage ought to be looked at as a disincentive to imprudent practices.

Mr. **Gray**. Let me just say that the recapitalization proposal that we have outlined in our statement, would better enable us to move, if we chose to do so, in that direction. If you were to reduce the level of deposit insurance coverage for the weakest institutions you would exacerbate their problems. If we had a recapitalization, it would be much easier for us to move in that direction if the Congress so chose.

Mr. **Leach**. I appreciate your concern. Thank you.

Chairman **St Germain**. However, supposing that you said yes to the weaker institutions but no to the high fliers?

Mr. **Gray**. All right.

Chairman **St Germain**. Gambling institutions managed by gamblers and mushroom farms, windmill casino investments, et cetera, that we are all familiar with.

Mr. **Gray**. Many of those, Mr. Chairman, have disappeared from our rolls, so to speak.

Chairman **St Germain**. But in certain States, Mr. Chairman, they can reappear overnight, can they not——

Mr. **Gray**. That is true.

Chairman **St Germain** [continuing]. Because H.R. 20 is still not on the floor and still not law.

But if we were to say that for those institutions that are going to make these unbelievable investments—fine, if your State wants to allow that, that is all well and good; however, we, the insuring fund, are going to reduce the insurance to $50,000 per account—then we would not be hitting the weaker institution.

Mr. **Gray**. Right.

Chairman ST GERMAIN. That is, hitting the bad actor.

I am going to have my staff develop a memorandum on that. I think we ought to chat about that a little bit.

Mr. GRAY. I would be delighted.

Chairman ST GERMAIN. They might decide that they think H.R. 20 is great.

Mr. GRAY. You know that I have had no sympathy whatsoever for the high fliers in my entire tenure.

Chairman ST GERMAIN. The risk takers.

Mr. GRAY. Yes.

Chairman ST GERMAIN. Mr. Vento.

Mr. VENTO. Well, thank you, Mr. Chairman. But the fact of the matter is that sympathy for high fliers is one thing and permission to be one is another thing.

In other words, under current law it has been permitted, and obviously we should have stepped in a lot sooner and done something about it.

Mr. Chairman, Mr. Gray, with respect to the GAO report, I am hardly surprised that you would reject the GAO findings because of the year difference in terms of time and other factors. Much of them, of course, are heartening with regards to the job. The falling interest rates and some of the other problems have begun to solve themselves.

But appearing now is another new problem, and that is the oil investment problem, and in looking at the figures, the amount of debt that you have reported to us that is probable, $16.5 billion out of an $80 billion portfolio--I saw it someplace here 1 minute ago. I don't know what page it is on—what is the drop in oil prices going to do? Has that been calculated into this, or is that undetermined at this time?

Mr. GRAY. Well, I don't know of any institutions that are making energy loans in the thrift system, but obviously in the Southwest when oil prices go down the entire economy will be affected, and so will the real estate area, and that is where our institutions are heavily involved.

Mr. VENTO. Well, that is where the troubled institutions are, as a matter of fact, isn't it?

Mr. GRAY. Yes.

Mr. VENTO. So you have got a double problem. I mean, it is going to compound this particular figure, isn't it? Are you concerned about that?

You said you had 216 institutions—how many of them are in this area?

Mr. GRAY. Well, I hate to tell you, but a majority of them, and I don't have the exact figures before me.

Mr. VENTO. A majority of them are in that area?

Mr. GRAY. Are in the Sun Belt area.

Mr. VENTO. Yes.

Mr. GRAY. Yes.

Mr. VENTO. That is what I thought.

I mean, it just sort of follows that the pattern has been in terms of powers and the more powers they have been given and the deeper trouble they have been in, the more risk they have assumed and they have tried to pick up a piece of that.

So it is quite likely that this will compound and I suppose add some degree of urgency to resolving this particular issue, does it not?

Mr. **Gray**. Yes; Congressman, we have identified the institutions in the Southwest that we are very concerned about. In fact, they constitute a part of the analysis that we have done in our statement.

Obviously, there will be others, as there always are, that we will come to know about down the way. But I am pleased to say that while we do not have the resources to resolve all of these cases immediately, obviously, the fact is we have identified them.

Mr. **Vento**. Well, you are trying to put that together, I guess.

Mr. Gray, with regards to the Federal home loan bank's role in this, have they up until this date provided direct assistance to the FSLIC in the past?

Mr. **Gray**. Well, we obviously have the FSLIC guaranteed advances from the Federal home loan bank.

Mr. **Vento**. But you are asking in this——

Mr. **Gray**. But the kind of financial assistance that we are talking about here, no.

Mr. **Vento**. Direct. I understand this is new. Is it true that you have not decided what direction you are going to use with regard to this?

I notice that you are saying the market received additional risk, and that special revenue bonds are an option. I mean, as I look at this it seems to me that you are looking at a variety of different ways in order to do that.

Is that correct?

Mr. **Gray**. As I indicated, there is a meeting of the minds between the Bank Board and Treasury on the basic conceptual approach. The Treasury is currently reviewing the options within that basic, fundamental approach.

Mr. **Vento**. Well, I mean you are talking about various steps: retained earnings of the Federal Home Loan Bank Board; actual payment of interest on the debt obligation of the FSLIC.

In other words, what is the magnitude of assistance that is going to be needed? You are going to have to raise a certain amount of money through assessments, I guess. You are still proposing to do that.

I don't see the actual amount here, but I take it that Secretary Gould is going to be giving us that good message when he comes up here, is that right?

Mr. **Gray**. Well, I——

Mr. **Vento**. Well, you have given us some indication in the past of what it has to be, but you are not bringing that good news to us, right?

Mr. **Gray**. What I really am saying is that the approach we are taking would provide an additional $8 to $10 billion over a relatively short period of time.

The special assessment would continue in place, but it would be phased down over time such as 90 percent in 1987, 75 percent in 1988, and so on down. And that would be a part of the stream to pay off the debt over a much longer period.

Mr. **Vento**. In other words, you are going to go to the market and raise extra money through the Federal home loan bank facility is what the point is, isn't that right?

But indirectly, if you did it all through assessment, in other words, it just has an effect on what the broad earnings are of these institutions through their investment in the Federal Home Loan Bank Board.

So I mean it sort of short-circuits it by going there. Maybe it makes it more efficient. You can explain it any way you want. But the fact is it still puts a substantial load on these institutions, and I guess the concern is to balance this off so that the bolstering of the FSLIC supports the health of the entire industry as opposed to coming back and going at it on an assessment basis.

Mr. **Gray**. What we are trying to do is to use the resources, the retained earnings of the Federal home loan banks in such a way that we can leverage them and borrow in the capital markets so that we can obtain more money sooner to deal with these problem cases.

Mr. **Vento**. Well, wouldn't one say that this is not a hard dollar, as an example, the assessments are hard dollars, if I can use that terminology in trying to understand it, and that this might represent a short term windfall?

Aren't we actually gambling that these problems are short term, that they are going to correct themselves?

Because if we don't, then we have got that much more. In other words, we are extending ourselves in the assumption that we can turn around a lot of this paper in the event that we have miscalculated the impact of energy, and other major components of the portfolio. We are running a lot bigger gamble, right?

Mr. **Gray**. I think in part the answer lies with you and us in terms of the regulatory posture that we take in injecting more discipline which we are doing and will continue to do. We need statutory changes to help us in our enforcement so that we can get on to these problems sooner.

But obviously there are uncertainties out in the future.

Mr. **Vento**. In light of the fact that we have had a nonbank bank bill that is being held up because of certain amendments on tandem operations and other factors, Mr. Chairman, I really wonder whether or not the will is here to start to impose that type of discipline and those types of limits that would justify making that gamble at this time.

I mean, I think it would be the height of folly to pursue this short term windfall if there isn't something on the other side of that equation that deals with putting in order the thrift industry with respect to powers and with respect to what we are actually insuring.

To leave it open-ended I think would be of grave concern to me.

Chairman **St Germain**. If the gentleman would yield——

Mr. **Vento**. I would be happy to yield.

Chairman **St Germain**. I think that his suggestion is a very constructive one. And I hope that the Federal Home Loan Bank Board will give a lot of attention to it.

In other words, I feel that a major portion of the industry wants to straighten itself out, wants to eliminate the activities that, in many instances, have been very, very damaging to the industry, as well as to the fund.

Now if you come up with innovative ideas to help this fund out, I think Mr. Vento raises a good point. Let's do it in conjunction with an agreement that we give the Board a little more authority over direct investments and the types of investments they can make.

So don't give too much away without getting something in return is what Mr. Vento is saying.

Mr. **Vento**. Mr. Chairman, I have used up my time. I think you have expressed it very well.

Chairman **St Germain**. Mr. Parris.

Mr. **Parris**. Mr. Chairman, you said recently that the GAO grossly overstates the problems affecting the insurance. Under Secretary Gould's recent testimony in the Senate committee, he said that as of September 1985 there are 461 GAAP insolvent thrifts insured by FSLIC, and with a book value of $114 billion; 236 of them were unprofitable in the third quarter of 1985. You testified earlier in this committee, and you have been quoted by Secretary Gould, that the resolution costs are close to $17 billion.

You said in your testimony today that FSLIC will need $22 billion over the next 5 years.

Mr. **Gray**. Well, I mean, if that's possible. We were talking about——

Mr. **Parris**. OK, but that's the figure you specify.

Mr. **Gray**. No; I didn't. No, no, I said, I talked in terms of $16 billion, the cases we know of, and there was a margin there up to $20 billion, but who can know what the margin is.

Mr. **Parris**. Well, that's my point really, Ed. You say $16, $17 or $20 billion. I mean, the GAO report says $22 billion, which you criticize so vehemently. But, Ed, what's a few billion dollars among friends? OK? [Laughter.]

Aren't we basically in agreement, you and I? Aren't we basically in agreement about the seriousness of the problem and the need to take advantage at an early timeframe of getting FSLIC more money and to recapitalize the fund to address this problem?

Mr. **Gray**. Absolutely. That is what I have been saying. You bet.

Mr. **Parris**. Thank you.

Let me ask you, Mr. Chairman, aside from your personal staff, what positions in terms of the management of the Federal Home Loan Bank Board and FSLIC are the most important for its effective operation?

Mr. **Gray**. Well, I have three of them here—the Office of General Counsel, the Office of Policy and Economic Research, and the Office of Examination Supervision.

There are others—the Office of the FSLIC, the Office of District Banks—and I don't want to suggest that they are less important.

Mr. **Parris**. I understand that, and that's the thrust of my question, Ed. Five of the seven top positions in the Federal Home Loan Bank Board, including all three of the gentlemen sitting with you at this table today, are serving in an acting capacity.

And my question to you, is there a reason that the appointments of these or any other persons in management capacity has not been made permanent?

Mr. **Gray**. Let me answer the question in the following way. In my own opinion, and I have been here for 3 years, we have the finest staff that I have had since I have been at the Federal Home Loan Bank Board. Period.

We have drawn two of our people from the Federal Home Loan Bank System—the Director of the FSLIC and the Director of the Office of Policy and Economic Research.

Frankly, I don't think that we could get these kind of people because of the salary constraints that we have to pay.

Mr. Quillian, the Acting General Counsel, former Director of the Office of Regulations, has been associated with the Bank Board for many years. I consider him an outstanding lawyer. He knows the industry very well.

And I would say in answer to your question that I and my fellow Board members are immensely satisfied.

Mr. **Parris**. Then why don't you give them the job?

Mr. **Gray**. What?

Mr. **Parris**. Why don't you give them the job. Why not take off the "acting" part? That's what I don't understand.

Mr. **Gray**. Well, some of them tend to be people who are associated more directly with career positions.

Mr. **Parris**. I am not sure I understand that but maybe we can talk about it at another time.

Let me, and I will say publicly and up front, Ed, that I do not envy the costly and painful alternatives that are available to you in your responsibilities as Chairman of the Board. And you have in fact adopted some what I will euphemistically call innovative solutions to some of the problems of the industry. Among those are the ICC program, the Management Consignment Program, and so forth.

By mid-1985, it's my understanding that the FSLIC had issued income capital certificates to ailing thrifts, $1.36 billion, $289 million in net worth certificates, or $1.6 billion roughly.

The figure at the end of 1985 is, roughly, $2.6 billion. It's not possible, but I will take your word for it. And that of that $2.6 billion, you have written those individual certificates down to roughly $1.8 billion.

Now I am told that in that program there was a loss during the year 1985 of something around the third of the value of those certificates, and a very large number of the ICC's have gone to the Management Consignment Program.

Now we all know what the Management Consignment Program is. It says: We will take you, the ones that are in trouble and we will set you over here, and please don't rock the boat or make too much noise. We will get to you later. Just be careful and don't get us in any more trouble.

That is what that program is, and maybe it's all right if it ultimately works out. But that remains to be seen.

My point, Ed, is that there are 31 institutions with about $18 billion worth of assets in that program, and that you have been quoted as saying there's another 60 or so that are being considered.

Mr. **Gray**. Another what? How many?

Mr. **Parris**. Sixty or so is the number that I have, that are being considered for that program.

Now, some of the history of some of those institutions, and I would like to ask unanimous consent to Mr. Chairman, if I might, for the purposes of the record—apparently, if my consent is approved—to insert in the record some brief history of just one of those institutions.

My real question to you, Ed, is: If there is not adequate capital in the fund to permit the MCP management to go ahead with the liquidation of below loan market asset values, aren't we just warehousing the problem? I mean, when is it that we finish with this problem?

Mr. GRAY. Well, Congressman, I use the exact term, holding pattern, warehousing of these assets in the MCP. I have also stated that we have limited finite reserves. You are aware of that. I am aware of that. We are trying to deal with this program the best way we can given our resources.

However, most of what you have said with respect to the Management Consignment Program seems to ignore the reason why we have presented this recapitalization approach, which would in fact enable us to deal with these kinds of problems.

That's why we are here today, among other reasons, to bring to you a means by which we could recapitalize the fund in an appropriate way so that we could get on with the business of dealing with these kinds of problems in the way I think you would like to see us do it—more quickly, more expeditiously, and in the way we would like to do it.

Mr. PARRIS. That's why I started my line of questioning here, Mr. Chairman, with the first question being I don't think you and I are different in our views at all about the requirement in the interest of the delivery of financial services in this Nation to address in a meaningful and effective way this problem that is being experienced by a percentage of the thrift industry in our country.

My time has apparently expired, Mr. Chairman. Thank you.

Chairman ST GERMAIN. There is nothing apparent about it, Stan, it has. [Laughter.]

Mr. PARRIS. Perhaps I will get another turn here, Mr. Chairman.

Chairman ST GERMAIN. Chairman Gray, last week I listened to Mr. Anderson and to others. Mr. Sahadi was here also.

GAO used the numbers they received from you to come up with their report. We all agree. We wouldn't be here, Chairman Gray, if there weren't a problem.

Mr. GRAY. That's right.

Chairman ST GERMAIN. And a serious one.

Mr. GRAY. That's right.

Chairman ST GERMAIN. We wouldn't have come up with net worth certificates, income capital certificates, and so forth, if there were not a problem.

Don't apologize for the problem. You didn't create it. Frankly, a great many of us are proud of the way you have had the guts to address it. We don't agree with everything you have done or proposed but, by golly, you've got yourself a hornet's nest and you have been doing a good job.

So, instead of quarreling with GAO's numbers, let's conclude that there's a difference of opinion because it's a matter of projection. It's not an exact science, so let's all work together to solve the problems that confront us. Let's try to come up with, as you have already begun to with some innovative ideas. You have got a great Board that's been working with you.

We want you to keep up the good work. Let's not argue about little things that are meaningless. Forget it. GAO submitted a report. So what? So yours is different. You are projecting.

My golly, every bank in the Nation, every thrift in the Nation that's in trouble projected. They have made mistakes. It's awfully easy on Monday to decide what you should have used as a play on Sunday. You see?

No, don't apologize. You're doing a good job.

Mr. GRAY. Thank you.

Chairman ST GERMAIN. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

Chairman Gray, thank you for your testimony. I was cleaning up the after-effects of my agricultural banking testimony and I missed part of the question period. But I do have one question.

On page 9 of your testimony, you talk about the bidding procedures and priorities established under the Garn-St Germain Act and you raise two particular points.

Last week, the National Council of Savings Institutions suggested that the Bank Board should modify its policies regarding what are eligible institutions to acquire.

And they said basically that they simply needed to be well-capitalized, responsible corporations.

If you haven't answered that already, I would like to know what your reaction is to that association suggestion.

Mr. GRAY. Essentially, that is already our policy. There is one limited exception that relates to entities that are principally engaged in underwriting and making markets in equity and debt securities.

We have taken this position simply because we believe that it's such an important public policy matter that regulators ought not make the decision but, rather, the Congress ought to make that decision.

But, other than that, we are willing, long as they are responsible acquirers, as long as they have the financial capacity, and they are willing to play by our rule, we welcome them with open arms as bidders at our bidding conference.

That's our policy.

Mr. BEREUTER. How many opportunities have you had at this point to implement what you are suggesting you are willing to implement?

Mr. GRAY. Over and over again. It happens every week or two, every time we have a problem case. Now, in the case of banks and savings institutions, we at the current time must go through what I would describe as a four-tier bidding process, because that is spelled out in the Garn-St Germain Act.

But if you are not a bank or a thrift institution and you are an investor who wants to come in, and we believe that the bidder is a responsible player, will play by our rule, and meets these other criteria that I've basically outlined, they are welcome at bidding conferences. And they do come and bid.

Mr. BEREUTER. Is there anything in the bidding reforms that you're suggesting that is necessary to broaden further the range of corporations that would be eligible to purchase?

Mr. GRAY. No; because it's not necessary other than the one type of entity that I am talking about, which I think Congress ought to make the decision on.

Everybody else can be a part of this process. And that's been the case, by the way, going back through my entire tenure.

Mr. BEREUTER. Thank you.

Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Schumer.

Mr. SCHUMER. Thank you, Mr. Chairman, and let me welcome you again.

Mr. GRAY. Thank you.

Mr. SCHUMER. Chairman Gray, let me say, first of all, I think this committee greatly appreciates your candor. Most of the regulators who have come before us sort of beat around the bush one way or the other. You don't, and I think that in the dire straights that thrifts find themselves in, candor is the only thing that is really required.

And so I compliment you on your testimony. I must say it's frightening. It's devastating. We are not even over the hump yet.

In other words, the number of institutions that will come before you as troubled exceeds the number that are already troubled, and FSLIC doesn't have the resources to deal with it under the present, and, thus, you are seeking new solutions.

But I find it incredibly frightening, I guess, again, looking at the road ahead of us and how we are going to get out of this problem.

Let me just ask you a couple of questions. The first one deals with the plan that you have offered us. It seems so simple. It seems that there are so few downsides. Why didn't you come up with this 6 months ago?

It seems a heck of a lot easier than recommending that 1 percent of the deposits of existing thrifts be put into some fund. I mean, are you glutton for punishment, or was there some reason that we couldn't do this until now?

Mr. GRAY. Well, there may have been. We have not worked with Treasury as closely as we have been working with them since last fall. And I might say, Congressman, that following the hearing on the 17th of October before this subcommittee, the Federal home loan bank presidents had begun to look at ways, and explore ways in which the banks could be helpful to the FSLIC.

This is not an easy matter because within our own bank system there are policy concerns. There are accounting complexities, tax complexities, other things, that you have to deal with.

I must say that in our discussions in—particularly in probably beginning late January and February—there seemed to me was a developing understanding between Secretary Gould and his staff, our staff, the Federal home loan bank presidents ultimately, that this concept, this approach had merit.

And it's for that reason that I think we have made this progress.

I also wish that it had been possible to move more quickly on this, but I can't tell you how much work has gone into examining the range of issues.

You know, in each of the Federal home loan bank districts, you have a separate board that governs the activities of the particular Federal home loan bank.

There are not only complexities but there are people, there are players involved, which we have to take account of.

Mr. SCHUMER. A second question deals with your method of expanding the potential acquirers of troubled thrifts.

Mr. GRAY. Yes.

Mr. SCHUMER. In response to the question of the gentleman from Nebraska, you said—correct me if I'm not right—that there are lots of nontraditional institutions lining up at the door to take over some of these troubled thrifts.

Mr. GRAY. Not nearly enough.

Mr. SCHUMER. No, there are not very many. Is that what you——

Mr. GRAY. That's right. There are not very many.

Mr. SCHUMER. Why do you think—go ahead.

Mr. GRAY. Unfortunately, too often, we have dozens and dozens of potential bidders, that, in all too many cases, when they become aware of the nature of the asset problem, do not bid at the bidders conferences.

Mr. SCHUMER. You find if two institutions of equal financial capability come knocking at your door, one, somebody who has been involved in the banking business, and the other who has been a very good manufacturer of carburetors, would you prefer the bank? Or you really don't care?

Mr. GRAY. Well, unfortunately, we do not have many industrial companies that have expressed interest in acquiring thrifts. I think that is possibly part of an education process, particularly given what I believe are prospects for well-run thrifts out into the future.

We tend, I think, to have a variety of bidders but we don't have very many industrial companies.

Mr. SCHUMER. How many? How many nonbanking type institutions that would cross the line that many of us on this committee are trying to redefine between commerce and banking have successfully acquired troubled thrifts?

Mr. GRAY. Not very many, and it's not because we don't give them all consideration.

Mr. SCHUMER. Oh, I don't want you to give them all considerations, myself.

Mr. GRAY. But, no, there haven't been many. We tend to find more groups of investors or an individual investor will want to come in, more so than a large company of the type that you are talking about.

Mr. SCHUMER. OK. My time is expired.

Mr. GRAY. Thank you.

Mr. SCHUMER. I will be happy to ask another question if the chairman is busy.

Chairman ST GERMAIN. All right.

Mr. SCHUMER. I thought I would sneak one in, Mr. Chairman.

Chairman ST GERMAIN. Well, I will tell you how that's done later. [Laughter.]

The chairman can do that, you see, because he's here constantly. He can do that, but the other Members can't.

I am coming back to you, not apparently, but actually. [Laughter.]

Mr. PARRIS. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Because Mr. Parris has been here from the opening gun.

Let me ask you this. For instance, how many W.T. Grant's have acquired S&L's? I use that one because it's no longer in existence. However, it was a retail chain. Are many of them coming and bidding? You know, nonbankrupt W.T. Grant's retail chains? No?

Mr. GRAY. No; they are welcome, but they don't come.

Chairman ST GERMAIN. But they haven't been there; right?

Mr. GRAY. No.

Chairman ST GERMAIN. So, for anyone to say that they will be the savior of the FSLIC is rather an inaccurate presumption; is it not?

Mr. GRAY. Well, as it turns out.

Chairman ST GERMAIN. From your experience to date?

Mr. GRAY. As it turns out thus far, that is correct.

Chairman ST GERMAIN. Correct. Now, there was an insurance company that wished to acquire an ailing thrift. I think it was in the State of Ohio. Am I right?

Mr. GRAY. It didn't wish to acquire an ailing thrift; rather, a nonailing thrift.

Chairman ST GERMAIN. Oh, now, the reason for the turndown, can you refresh my memory on that one?

Mr. GRAY. Yes; the reason——

Chairman ST GERMAIN. That you didn't approve the acquisition?

Mr. GRAY. No, that's not the reason. The reason was the insurance company did not want to take in connection with the possible acquisition of the nonailing thrift a failing thrift in the same State. That is the reason.

Chairman ST GERMAIN. So you used the carrot and the stick approach, and they wanted the carrot but they didn't want the stick, so you said no; correct?

Mr. GRAY. Right.

Chairman ST GERMAIN. Which I wouldn't quarrel with.

I know there's a couple of steel companies that have bought S&L's; right?

Mr. GRAY. Yes; that's correct. And as a matter of fact, Ford Motor Co. owns——

Chairman ST GERMAIN. Ford Motor Co. But, beyond that, it has been a slow process.

Mr. GRAY. Well, Sear's has long had——

Chairman ST GERMAIN. Yes, but they are not going into every State as a philanthropic corporation. They are not going to each and every State and saying, well, we'll pick up a few ailing thrifts here and help out the FSLIC; are they?

Mr. GRAY. They can come to bidding conferences, but as it turns out——

Chairman ST GERMAIN. Well, I'm asking you if they have been doing it.

Mr. GRAY. No, I guess they haven't.

Chairman ST GERMAIN. And you have checked with all of your wonderful staff here?

Mr. GRAY. Right.

Chairman ST GERMAIN. By the way, I can understand incidentally why they want to stay on as acting. [Laughter.]

Because by being acting, you can stay for as long as you wish. But if you become permanent in that new category, then you are on slippery ground. It's like being a Member of Congress; you don't get reelected.

Mr. GRAY. In that connection, we could not take members of the Federal home loan banks or Bank System in any capacity other than acting. Otherwise, they might well have to forego higher salaries in many cases.

Chairman ST GERMAIN. Correct. And, you can't blame them for that.

Mr. Parris.

Mr. PARRIS. Thank you, Mr. Chairman. Just one comment in extension of the dialog you and Mr. Gray just had, one of the reasons why we're getting less bidding conference, bidding activity, is because the value of a charter, in the thrift institution charter, is diminishing as we realize in the real world the extension of interstate banking.

And that value is going to continue to deteriorate in the future. This is consistent and I will not take all the time, Mr. Chairman.

I have tried in my own quiet way to elevate the level of attention and candor in this regard. And, certainly, I hope that's been constructive. And my only criticism of all concerned—the regulators, the administration, the Congress, is what I consider to be inadequate aggressiveness and expedition of reaching a solution to the problem.

Now I do not lay that failure of action solely at your feet, Mr. Gray. Let's get that straight.

The biggest danger that I think we face in all of this, very frankly, is that look at this table. Members of this subcommittee responsible for solution of this, what I consider to be a serious problem, the biggest danger is that we may massage the problem very gently, declare victory and walk away.

This hearing, which I have appreciated very much—the chairman has been very generous, and your presence here—but it's something like kissing your sister. It's socially required but a perfunctory exercise, not terribly stimulating.

Let me just add to the comments of the chairman in one regard. There is some modest difference of judgment about the numbers in your report, in your testimony than that position taken by the Treasury Department, et cetera.

But I think we all agree that in everybody's opinion, the magnitude of the problem grossly exceeds the amounts available to you in your capacity as the regulator responsible for the insurance fund and for the home loan bank activity generally.

You have inadequate assets to solve the problem. And that's the situation that we all need to address our attention to.

As one member of this committee, Ed, I offer you my assistance in a constructive way to reach an early solution of that problem.

And I thank the chairman for his——

Chairman ST GERMAIN. I want to thank the gentleman. I just observed that the chairman of this committee looks forward any time to constructive suggestions from the gentleman from Virginia as well in this area, because it's not a question of kissing your sister here but, rather, of trying to find a solution.

I am open to suggestion, believe me. I will certainly be very, very responsive. So I have listened to you very attentively. I haven't been able to watch you on the floor because I have unfortunately, had other things to do on a few occasions.

But, we all agree that the fund is in trouble. Now I am looking forward to your coming up to the floor and telling us how to solve the problem, because we are with you.

Mr. GRAY. Well, you are gracious as always, Mr. Chairman. I would refer you to about the last 10 pages of my recent statement. It's scintillating reading. In the quiet, still night watches, you can take it home there. There are 10 pages or so of alternatives.

Chairman ST GERMAIN. Is it stimulating as well as scintillating?

Mr. GRAY. Absolutely. It is scintillating.

Chairman ST GERMAIN. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman. Chairman Gray, I apologize for being out of the room for a while, but I was having lunch with the Farm Bureau Federation of Ohio and they gave me a little lesson on agricultural banks.

Chairman ST GERMAIN. Do you mean you left here? You went to lunch and you left me here without any lunch? You went to lunch and now have come back and delayed my lunch?

Mr. WYLIE. It's going to be your turn next. [Laughter.]

I will be brief, but I do appreciate the chance to ask a couple of questions. On page 3 in your discussion of the condition of the industry today, you state that the Board's Office of Examination and Supervision has identified, quote:

"Forty-two institutions with assets of $14.2 billion that may fail in the future, but whose resolution may or may not require FSLIC assistance."

If those institutions fail, would they require FSLIC assistance or wouldn't they?

Mr. GRAY. I am sorry. Which ones?

Mr. WYLIE. You said that there are 42 institutions—this is on page 3 of your testimony.

Secretary GRAY. Right.

Mr. WYLIE. Middle of the page. "Forty-two institutions with assets of $14.2 billion may fail in the future, but whose resolution may or may not require FSLIC assistance."

Mr. GRAY. That's right.

Mr. WYLIE. I would just like you to explain that.

Mr. GRAY. Yes; they may require assistance. They are marginal. But, just 1 second.

Mr. WYLIE. The real thing I would like for you to clarify is what other assistance would be available?

Mr. GRAY. Let me say that, in the case of voluntary mergers, Congressman, there is no assistance involved. If you don't have a voluntary merger—that is to say, if you have the regulator more involved, the FSLIC involved, then there may well be required some FSLIC assistance.

But these have been, I believe, placed—these 42 have been placed in the 216 number, with assets of $80 billion, that will require assistance.

Mr. WYLIE. What I was thinking is are there voluntary mergers involved in your thinking there? And I don't want to know the names of the institutions. That's not what I am getting at.

Mr. GRAY. Right.

Mr. WYLIE. But are we talking in terms of voluntary mergers of troubled institutions? And, if so, how many?

Mr. GRAY. Well, to the extent that voluntary mergers could occur and work out, it would help the FSLIC because, by definition, a voluntary merger does not require FSLIC assistance.

Mr. WYLIE. OK. Well, on the troubled list there were some 461 institutions mentioned in the GAO report.

Mr. GRAY. Right.

Mr. WYLIE. And you indicated that some recapitalization of FSLIC must be borne by the industry and by the Federal Home Loan Bank Board. And I am a little unclear as to the industry share.

I saw the article in the Wall Street Journal this morning about using reserves from the various banks. And you indicated that the one-eighth of 1 percent special assessment would help, but that it would be phased out over 10 years.

What kind of assistance are you getting from the industry? The industry was opposed to your 1 percent proposal on assessments, of course.

Mr. GRAY. Well, interestingly enough, the industry, I believe, is going to move along a similar conceptual path, if I understand correctly what the U.S. League of Savings Institutions may be proposing. And that proposal, I understand, may be made this afternoon.

What we are talking about here conceptually is a continuation but a downscaling over time of the special assessment, that is the one-eighth of 1 percent special assessment over time going from currently 100 percent to 90 percent in 1987, 75 in 1988, 60 in 1989, 50 in 1990, and on down.

Now that would be a phaseout. But that would provide the revenue stream along with the future retained earnings of the Federal home loan banks to, in effect, pay off the debt over a much longer period of time in our proposal, so that we could raise a larger amount by leveraging earlier on.

Mr. WYLIE. I've been given a note that my time has expired, but I did have a thread through my questions. And my real question was, in an article in Forbes, it is indicated that a lot of FSLIC insured institutions were switching to the FDIC.

Wouldn't it be in the interest of the industry to shore up or make the FSLIC fund more sound, if that is happening?

Mr. GRAY. Absolutely, it would. I agree with you.

Mr. WYLIE. OK. Thank you. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Schumer.

Mr. SCHUMER. Thank you, Mr. Chairman. I have two brief questions just to follow up.

The first one is that, yesterday, bank regulators, FDIC, the Comptroller and the Fed announced more relaxed regulatory treatment of troubled agricultural and energy loans. Knowing what you know about regulatory accounting procedures and how they can hide real problems at institutions, what do you think of that proposal?

Mr. Gray. Well, let me answer it with what I know about the way we have done our regulatory reporting over time.

Back in 1981 and 1982 and moving into 1983, some of the regulatory reporting requirements were eased by my predecessor because of the tremendous problem that existed during that period of time.

The idea behind that was that institutions, given the earnings spread problems at the time, would have a better way—some cushion—to work out of their problems.

What actually happened, of course, was that institutions went off on a growth binge and because the deposit market was, in effect, deregulated, they attracted huge amounts of money on relatively low levels of capital. And we found a situation where a lot of money was chasing simply too few good assets.

Now, with respect to regulatory accounting, during my tenure, we are moving down the track toward getting much closer to GAAP. GAAP is not a perfect convention either, in my view.

But I am not sure that I know enough except basically what you say about what the bank regulators are proposing. I know they obviously have a problem as a result of these energy loans. They are probably trying to do the same thing that previous Bank Boards did when they were facing that kind of problem, to try to find a way to use perhaps more liberal accounting to deal with this.

I think it's ironic, incidentally, Congressman, that the Bank Board has been criticized so often by members of the commercial banking fraternity as it relates to our regulatory reporting. And now we are seeing an interesting shift, apparently based on what you're saying, by banking regulators to pursue, at least in some degree, the same thing which we have consistently been criticized so strongly for by members of the banking fraternity.

I think that's an interesting irony.

Mr. Schumer. All right. Second question. You have stated that the current flock of troubled institutions are asset quality problems.

First, I think that's a message to us on the committee this kind of deregulation of allowing commercial and other institutions into shaky asset areas may create problems for the commercial area the way we've had them in the thrift.

My question is: You have tried to—you have promulgated a direct investment rule, limitation rule, which I think is a good thing. Has it worked so far? And, second, why is the administration opposing your view of your attempt to curtail the State, permissive State regulators in this asset area?

Chairman St Germain. Excuse me. Could you amend "permissive" to "promiscuous"?

Mr. Schumer. If the chairman asks, I shall so amend. [Laughter.]

Chairman St Germain. I think it's more descriptive.

Mr. Gray. I am not sure that I am aware of the administration opposing us on our direct investment regulation. Could you be a little more specific on the "permissive" or "promiscuous" activities?

I am not sure exactly what you are getting at there.

Mr. **Schumer**. Well, OK. You have stated that there are a number of States——

Secretary **Gray**.

Mr. **Schumer** [continuing]. Whose laws are too promiscuous, and want to curtail those States.

Mr. **Gray**. Right.

Mr. **Schumer**. I believe it was Secretary Gould who said the administration would be opposed to curtailing those State laws.

Mr. **Gray**. I see.

Mr. **Schumer**. My question is how those two play, and why do you think the administration is advocating what I would call a slightly short of idiotic policy at this time?

Mr. **Gray**. The dual Federal-State thrift system of course has been in effect for some time. What has occurred over time is that a diversity of operating authorities has developed. In my own home State of California, 100 percent of an institution's assets can be placed in a service corporation, and when that occurs, direct investments, up to 100 percent can be made.

What we have tried to do—and of course we proposed a risk premium program—was to better underwrite the risk of loss from FSLIC-insured institutions, particularly those operating under rather more liberal State authorities. That proposal has of course been before the House and Senate for 2 years now.

One of the other things that we intend to do in phasing up our net worth requirements is to really go to a kind of risk-based capital approach using the regulatory scheme whereby those kinds of activities which result in more risky assets require substantially greater reserves to be imposed against them.

We have already done that, of course, in our direct investment regulation, but I do not think we have gone nearly far enough. This is why right now we are really toward the end of the development process of a means to deal with it in that way because there is no statutory way that we can say to the California State Legislature, you have to change.

Mr. **Wylie**. Would the gentleman yield?

Mr. **Parris**. Would the gentleman yield?

Excuse me.

Mr. **Wylie**. But 30 seconds additional, Mr. Chairman?

Chairman **St Germain**. I will give you 30 seconds.

Mr. **Wylie**. I would like to have you comment on the statement by Mr. Schumer from the standpoint of are we talking in terms of passing a law which would in effect repeal the dual banking system. Now, that isn't what you are talking about, is it?

But if we intervene as far as the State laws are concerned, insofar as what the State-chartered institutions are going to be allowed to do in the overall, then that is the effect of it. If we suggest what the risk is and what we are going to insure, that is another aspect to it.

But I think what Mr. Gray was suggesting is that he is not necessarily in favor of a proposal which would provide for a uniform application of State and Federal laws which would have the effect of repealing the dual banking system.

Mr. **Gray**. Well, if I may say one thing. Mr. Gould made an interesting proposal in his testimony before the Senate Banking Committee. It was that States which authorize their institutions to go beyond what Federal law allows federally chartered thrifts would be required to place these activities in a holding company, thereby insulating the insured institution, at least in some substantial degree, from losses which otherwise would have to be borne by the FSLIC.

I thought it was an interesting approach. Although it is not necessarily a new approach, it accomplishes the same thing we have tried to accomplish basically with our risk premium approach. That is to say if you are a State-chartered institution in a State that has greater powers than Federal laws allows for Federal thrifts, we will price the risk of whatever activity you are engaged in beyond Federal law for risk of loss to the FSLIC.

Chairman ST GERMAIN. I would say, that Secretary Gould and whoever worked with him on that very exciting, stimulating, and scintillating report to the Senate that he will probably give us here next week, that he didn't look at what happened in Continental Illinois. We bailed out the holding company as well as the bank itself.

So that is a lot of hogwash as far as I am concerned, and just a lot of verbiage that accomplishes nothing.

Mr. GRAY. Mr. Chairman——

Chairman ST GERMAIN. There is no real insulation.

Mr. Chairman——

Mr. GRAY. Yes.

Chairman ST GERMAIN [continuing]. I would like to ask you this question: Are you going to ask Freddie Mac to monitor—and don't get me wrong—I am the fellow who held up VRM's and ARM's as variable rate mortgages for a long period of time. However, they came about, and they have been utilized to a great degree.

Now, I read where a lot of institutions, a great many institutions, are granting for the most part conventional mortgages because the people are demanding them, and the writers have evinced a little caution that this might lead to trouble again in the future.

Now, they grant those mortgages, and they make those mortgages. Then, of course, they sell them off to the secondary market, to Fannie Mae and Freddie Mac. But Freddie Mac comes within your jurisdiction.

Is Freddie Mac monitoring this to determine—are you setting up a computer model—or what is it that the accountants use—a simulation or something of the sort—so that you can monitor and be certain that we are not looking forward down the line, should there be another increase in interest rates, to another disastrous situation such as we experienced in the not too distant past?

Mr. GRAY. Yes, I think the information that we get when loans come to Freddie Mac is readily available and we can monitor that.

Chairman ST GERMAIN. Well, my question is: Is it being monitored?

Mr. GRAY. Yes——

Chairman ST GERMAIN. Because I think it is a situation we have to watch very closely.

Mr. GRAY. It is——

Chairman St Germain. You know, if Freddie Mac ends up with too many conventionals at a low rate and then the rates start going up; don't you have a problem?

Mr. Gray. The difference between Freddie Mac and Fannie Mae is that those kinds of loans really do not stay in Freddie Mac's portfolio. They go elsewhere.

Chairman St Germain. Well, then Fannie Mae should be.

Mr. Gray. Yes; I would think Fannie Mae would think that through.

Chairman St Germain. Now, I am going to end my questioning with this: Do you plan to have an annual, independent audit of the financial statements of the Federal Asset Disposition Association?

Mr. Gray. Absolutely.

Chairman St Germain. Are you going to consider having GAO do that?

I am not being facetious here. I am being very serious because we do have—frankly, we have a lot of confidence in GAO, this committee in particular. It has been very helpful to us.

Mr. Gray. I don't want to leave the impression that I don't. I just think that there was a different interpretation placed on the numbers.

The Federal Asset Disposition Association, Mr. Chairman, is a federally chartered savings and loan association that operates a little differently through a different section of the National Housing Act.

We absolutely will require audited financial statements every year. I am not quite sure that I would understand why GAO would want to select this particular institution.

But I will tell you this, the Bank Board, as the operating head of FSLIC, will monitor very, very closely all aspects of the operations of that association on a continuing basis.

Chairman St Germain. Well, that is very interesting. Now, you know, I have to make a little statement here, and I have to tell you—I patted you on the back a little earlier.

Mr. Gray. Right.

Chairman St Germain. But now I am going to do a little tapping on the hand.

You created this—you can call it a 406; right?

Mr. Gray. Right.

Chairman St Germain. And it doesn't matter to me whether it is a man or a woman, so I am not being, you know, what is it, antifemale or anti-NOW or anything of the sort.

But my "God Almighty," $250,000 plus bonuses. That is preposterous.

I tell you what, the board of directors who approved that, in my books, made a grievous error. I mean, here we have a situation where we are in trouble. You name these wonderful people that are working in Government as actings and you say how competent they are. How must they feel?

President Reagan makes $200,000, you know. The head of Freddie Mac makes $170,000 and, geez, the head of the New York Fed, Corrigan, makes $160,000.

Now, I have news for you. I know this lady is very—probably very—how much did she make before she came to this? What was her salary before she came to this one?

Mr. GRAY. I would probably consider, respectfully, that information to be privileged.

Chairman ST GERMAIN. Oh, it is privileged?

Mr. GRAY. Well, I mean what she made before.

Chairman ST GERMAIN. Why would that be privileged?

Mr. GRAY. Well, because that was——

Chairman ST GERMAIN. I mean, if she is now making $250,000 plus bonus, you should be able to tell us that she is worth that because she made a whole lot of money before.

Mr. GRAY. Well, I will say that——

Chairman ST GERMAIN. Would you ask her if she would be happy enough to send the committee what she was making before?

Mr. GRAY. If she is willing to disclose that.

Chairman ST GERMAIN. Well, I think she should. I mean, if she is willing to take a job for $250,000 plus bonuses, she should be willing to demonstrate to us that she was a real hotshot before. She must have really been something.

Mr. GRAY. But, Mr. Chairman, there are many thrift executives that make $250,000 or more. There are many people in the private sector who——

Chairman ST GERMAIN. Oh, there are many people that make more than the $75,000 that the Members of Congress make or more, but that is not the answer to it, Chairman Gray.

The fact of the matter is that, here we have an industry in trouble, and we are trying to help it out of trouble, and, my golly she will have to do a lot of good before she starts earning her salary.

Mr. GRAY. I expect that she will.

Chairman ST GERMAIN. Well, I hope so. I hope so. But I tell you, the perception by many of us on this committee is one of disappointment.

Mr. PARRIS. Would the gentleman yield to me very briefly on that point?

Chairman ST GERMAIN. Yes.

Mr. PARRIS. Ten seconds.

Could you give us some information, some idea, Ed, when the balance of the 406 Corporation is going to be staffed up and in business and operational, that sort of thing?

Mr. GRAY. They are hiring now, and I expect within several months. One of the Board members of the Federal Asset Disposition Association is the Director of the FSLIC, and——

Chairman ST GERMAIN. How many Board members are there, by the way?

Mr. GRAY. There are 11 board members.

Chairman ST GERMAIN. Do we have their names?

Mr. GRAY. We would be happy to provide them.

Chairman ST GERMAIN. Well, that is an important thing. Doesn't any one of your wonderful staff here today have the names to list?

[Pause.]

Mr. GRAY. Let me try to go through them. We have Tom Bomar, former Chairman of the——

Chairman ST GERMAIN. Of the Federal Home Loan Bank Board.

Mr. GRAY. Don Shackleford from Ohio. We have William McKenna, from——

Chairman ST GERMAIN. William—oh, is that Red McKenna from California?

Mr. GRAY. Right.

Chairman ST GERMAIN. This lady was from where?

Mr. GRAY. She is from San Francisco.

Chairman ST GERMAIN. San Francisco. That is in California.

Mr. GRAY. Richard Beale, the head of Home Savings of America, in California.

Chairman ST GERMAIN. In California.

Mr. GRAY. We have Ed Byron. I believe he has just retired.

Chairman ST GERMAIN. Ed Byron is from Massachusetts?

Mr. GRAY. Massachusetts.

Chairman ST GERMAIN. Right. Well, we finally have one from the other side of the country.

Mr. GRAY. Jerry Levy from Wisconsin. Bo McAllister from San Antonio, TX. These are basically the savings and loan executives. John Zellers from Atlanta. We have Barney Beechman from Seattle. Emmett Cashen who is from California.

Well, we have three ex-officio members: Leo Blaber, who is chairman this year of the Conference of Federal home loan bank presidents, Ms. Bigna, who is the Director of the FSLIC, and the president who will also be an ex-officio member of the Board.

But there are 11 voting members.

Chairman ST GERMAIN. You know, I think your responsibilities are far greater than the responsibilities of the head of this new corporation.

How much do you make? [Laughter.]

Mr. GRAY. $72,600? I think it is something like that.

Chairman ST GERMAIN. Yes, and have you received many bonuses? [Laughter.]

Mr. GRAY. I can't remember any.

Chairman ST GERMAIN. Yes. This often doesn't make sense here, but we are still happy that you came up with all your wonderful staff and fellow Board members.

Mr. GRAY. Well, I know that many of the institutions that I regulate and of course many companies in the private sector make substantially more. I accepted that difference of course, when I came into Government service.

Chairman ST GERMAIN. Oh, so did many of us.

Mr. GRAY. Yes, right.

Chairman ST GERMAIN. That is why I was hoping that whoever would head up the 406 would have that same feeling about serving the common good, the homeowners and potential homeowners of this Nation.

But again, you have done a great job this morning.

Mr. GRAY. Thank you, Mr. Chairman.

Chairman ST GERMAIN. We will have some written questions for you, and without objection we will submit them to you, your fellow Board members, and your competent staff to further expand on for the record.

Mr. GRAY. Thank you very much.

Chairman St Germain. The subcommittee is in recess until the call of the Chair.

[Whereupon, at 1:25 p.m., the subcommittee was recessed subject to the call of the Chair.]

[Letters of invitation to witnesses of this day and material submitted by the subcommittee for inclusion in the record follow:]

FERNAND J. ST GERMAIN, RHODE ISLAND, CHAIRMAN

FRANK ANNUNZIO, ILLINOIS
CARROLL HUBBARD, JR., KENTUCKY
DOUG BARNARD, JR., GEORGIA
JOHN J. LAFALCE, NEW YORK
MARY ROSE OAKAR, OHIO
BRUCE F. VENTO, MINNESOTA
ROBERT GARCIA, NEW YORK
CHARLES E. SCHUMER, NEW YORK
BARNEY FRANK, MASSACHUSETTS
RICHARD H. LEHMAN, CALIFORNIA
JIM COOPER, TENNESSEE
BUDDY ROEMER, LOUISIANA
MARCY KAPTUR, OHIO
BILL NELSON, FLORIDA
PAUL E. KANJORSKI, PENNSYLVANIA
BART GORDON, TENNESSEE
THOMAS J. MANTON, NEW YORK

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-NINTH CONGRESS
WASHINGTON, DC 20515

CHALMERS P. WYLIE, OHIO
JIM LEACH, IOWA
STEWART B. McKINNEY, CONNECTICUT
NORMAN D. SHUMWAY, CALIFORNIA
BILL McCOLLUM, FLORIDA
GEORGE C. WORTLEY, NEW YORK
DAVID DREIER, CALIFORNIA
STAN PARRIS, VIRGINIA
MARGE ROUKEMA, NEW JERSEY
DOUG BEREUTER, NEBRASKA
STEVE BARTLETT, TEXAS
TOBY ROTH, WISCONSIN

March 5, 1986

Honorable Edwin J. Gray, Chairman
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D.C. 20552

Dear Chairman Gray:

To assist this Subcommittee in the discharge of its responsibilities, you are requested to appear before the Subcommittee on Wednesday, March 12, 1986, at 10:30 am, in Room 2128 Rayburn House Office Building, and provide testimony on the condition of depository institutions insured by the Federal Savings and Loan Insurance Corporation. You are specifically asked to testify on the following matters of concern to the Subcomittee:

1. What is the current condition of FSLIC-insured institutions?

2. What are the current resources of the FSLIC?

3. Are there any statutory or regulatory changes that should, in your judgment, be implemented to strengthen the capital positions and/or franchise value of FSLIC-insured institutions? In particular, we seek your views on the need to extend the Net Worth Program (Title I of PL 97-320) and Emergency Acquisition Authorities (Title II of PL 97-320).

In accordance with Committee Rules, please deliver 175 copies of your prepared statement to Room B303 Rayburn House Office Building twenty-four hours in advance of your scheduled appearance. Your statement in its entirety will be included in the hearing record and, if delivered as requested, the statement will be made available to all Subcommittee Members in advance of the hearing. To provide all Subcommittee Members with sufficient time for questioning, the oral presentation of your prepared statement must be limited to ten minutes.

Sincerely,

Fernand J. St Germain
Chairman

FJStG:dDv

QUESTION FOR FEDERAL HOME LOAN BANK BOARD CHAIRMAN EDWIN J. GRAY, BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTIUTIONS SUPERVISION, REGULATION AND INSURANCE, HEARINGS ON THE FINANCIAL CONDITION OF DEPOSITORY INSTITUTIONS, MARCH 12, 1986, SUBMITTED FOR THE HEARING RECORD BY REP. STAN PARRIS OF VIRGINIA:

> ALMOST A YEAR AGO, ON MAY 28, 1985 CENTRAL SAVINGS OF SAN DIEGO, WITH ASSETS OF $2.2 BILLION AND 48 BRANCHES, WAS TAKEN OVER BY FSLIC AND PLACED IN THE MANAGEMENT CONSIGNMENT PROGRAM. LET ME GIVE MY COLLEAGUES A CHRONOLOGY OF CENTRAL SAVINGS UNCERTAIN FATE.
>
> ON AUGUST 7, 1984 THE NEW YORK TIMES REPORTED THAT THE BANK BOARD HAD SET AN AUCTION FOR FSLIC THAT WEEK. CENTRAL HAD LOST MORE THAN $50 MILLION SINCE 1981, MAINLY THROUGH BAD LOANS AND INVESTMENTS IN COMMERCIAL REAL ESTATE. ITS NET WORTH HAD PLUNGED TO $14.3 MILLION, OR LESS THAN 1% OF TOTAL ASSETS, FROM A PEAK OF $61 MILLION IN JUNE 1981. NET WORTH HAD, THUS, DETERIORATED TO ONE-THIRD OF THAT REQUIRED UNDER THE BANK BOARD'S OWN REGULATIONS.
>
> AMERICAN CAPITAL, BASED IN MIAMI, AND CITICORP BOTH EXPRESSED INTEREST IN BUYING CENTRAL, ACCORDING TO A DECEMBER 5, 1985 AMERICAN BANKER ARTICLE. AMERICAN CAPITAL RAISED $70 MILLION TO FINANCE THE PURCHASE OF CENTRAL, WHILE CITICORP APPARENTLY BACKED OUT.
>
> ALMOST A YEAR LATER, THE NEW YORK TIMES REPORTED ON JUNE 1, 1985 THAT FSLIC HAD PLACED CENTRAL IN ITS MANAGMENT PROGRAM BECAUSE EFFORTS TO FIND A BUYER IN AUGUST OF 1984 HAD APPARENTLY FAILED, EVEN THOUGH CENTRAL, WITH ITS 48 OFFICES AND THE LONG-TERM STRENGTH OF CALIFORNIA'S ECONOMY, WOULD BE AN ATTRACTIVE TAKE-OVER CANDIDATE.
>
> BY MID-1985 CENTRAL'S NET WORTH HAD PLUNGED TO 0.64% OF ASSETS.
>
> ON DECEMBER 5, 1985, THE AMERICAN BANKER REPORTED THAT FSLIC STILL HAD NOT FOUND A BUYER FOR CENTRAL, EVEN THOUGH CITICORP HAD RENEWED INTEREST IN CENTRAL AND AMERICAN CAPITAL WAS THE LEADING BIDDER IN AUGUST 1984 AND CONTINUED TO WANT TO BUY CENTRAL.
>
> THE LIQUIDATION OF CENTRAL, THE ARTICLE REPORTED, WOULD COST AN ESTIMATED $700 MILLION, BUT ONLY SEVERAL HUNDRED MILLION IF AMERICAN'S BID WERE ACCEPTED AND THE MIAMI THRIFT PUMPED $70 MILLION IN NEW CAPITAL INTO CENTRAL. STEVEN COOK, AN EXECUTIVE VICE PRESIDENT WITH AMERICAN, WAS QUOTED IN THE ARTICLE AS SAYING: " QUITE FRANKLY, WE'RE FRUSTRATED. THE PASSAGE OF TIME IS CLEARLY A MATERIAL COST TO CENTRAL SAVINGS AND THEREFORE TO THE INSURANCE FUND."

CHAIRMAN GRAY, CENTRAL HAS BEEN LOSING MONEY SINCE 1981 AND AN APPARENT RESPONSIBLE BIDDER HAS BEEN INTERESTED SINCE AUGUST OF 1984, MEANWHILE CENTRAL'S CONDITION HAS SERIOUSLY DETERIORATED--WITH ULTIMATELY AN ENORMOUS COST TO FSLIC. IS THERE A REASON WHY THE BANK BOARD HAS NOT GONE AHEAD WITH AN ACQUISITION IN THIS CASE?

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

July 18, 1986

Honorable Stan Parris
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Parris:

This is in response to your May 21, 1986 letter to me regarding an additional question for the record in connection with my appearance before the Subcommittee on March 12, 1986 regarding the financial condition of the thrift industry. In particular, you asked why the Bank Board has not gone ahead with a proposal by American Capital to acquire Central Savings of San Diego.

The Bank Board did not approve the bid by American Capital to acquire Central Savings of San Diego because the cost of FSLIC assistance for the acquisition would have exceeded the cost of liquidation, which is prohibited by statute. 12 U.S.C. 1729(f)(4)(A). Although Citicorp also submitted a bid to acquire Central, the bid was subject to conditions that were beyond the control of the Bank Board. Citicorp's bid was subsequently withdrawn. The Bank Board placed Central in the Management Consignment Program (MCP) during the bidding process in order to contain and evaluate Central's problems and minimize the FSLIC's eventual solution costs.

As you know, the number of FSLIC problem cases and the estimated costs to the FSLIC of resolving them have been a severe problem. Central Savings is a good example of a problem institution whose resolution costs were simply too expensive to the FSLIC based on the bids we received.

The year that Central has been in the MCP has given us the opportunity to stabilize the institution and determine the severity of bad asset problems. The significant improvement in the interest rate environment has also benefitted Central. The Bank Board will be seeking rebids from potential acquirors of Central, and hopes to be able to resolve this case at an acceptable cost to the insurance fund.

If you have any further questions, please do not hesitate to contact me or my staff.

Sincerely,

Edwin J. Gray

FINANCIAL CONDITION OF THE BANK AND THRIFT INDUSTRIES

THURSDAY, MARCH 13, 1986

House of Representatives,
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance,
Committee on Banking, Finance and Urban Affairs,
Washington, DC.

The subcommittee met at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Fernand J. St Germain (chairman of the subcommittee) presiding.

Present: Chairman St Germain, Representatives Hubbard, Barnard, LaFalce, Vento, Cooper, Kaptur, Kanjorski, Manton, McKinney, McCollum, Wortley, Bereuter, Bartlett, and Roth.

Chairman St Germain. The subcommittee will come to order.

This morning we continue our hearings on the condition of the depository institutions and the Federal regulatory system.

Our witnesses this morning are Mr. Donald T. Senterfitt, who is president of the American Bankers Association; John C. Dean, who is chairman of the Agriculture-Rural America Committee of the Independent Bankers Association of America; and James L. Sexton, who is the banking commissioner of the State of Texas, testifying on behalf of the Conference of State Bank Supervisors.

Gentlemen, without objection we will put your entire statements in the record, and I will call on each of you now to make your presentations.

Our first witness will be Donald T. Senterfitt, testifying on behalf of the ABA.

Mr. Senterfitt.

STATEMENT OF DONALD T. SENTERFITT, PRESIDENT, AMERICAN BANKERS ASSOCIATION [ABA]

Mr. Senterfitt. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I am Donald T. Senterfitt, vice chairman of SunTrust Banks of Orlando, FL and Atlanta, GA, president of the American Bankers Association.

I am pleased to appear before you today to testify on the condition of banks that are insured by the Federal Deposit Insurance Corporation.

I am pleased to report that systemwide the condition of the banking industry is sound. Nevertheless, we must consider the longer term outlook and what must be done to assure continued stability and soundness. The current structure may not be adequate to the task.

Despite the fact that our economy and our banking system are strong, there are important segments of both that are experiencing difficult adjustment problems. By focusing on three of the most important areas, which are agriculture, energy, and lending to less developed countries, these hearings should provide an important record of understanding in all three of these problem areas.

In all three areas, the cold economic statistics cannot adequately portray the impact on the lives of those most directly affected—for example, the individual farmers and their families.

And I want to assure the members of this subcommittee that bankers are committed to work with our borrowers to solve these problems. No matter what the regulators may do or not do, no matter what the administration may propose or not propose, and no matter what this Congress may do or not do, bankers will stick with their customers.

We recognize that in considering the recommendations that we offer today, the subcommittee will want to consider not just the impact on banks but the impact on our bank customers as well, and it is in that spirit that our recommendations were drawn up.

I think it is important to put all three of the areas we are looking at today in historical perspective. Only a few years ago, in the late 1970's, we had public policies in all three areas which encouraged extensive bank involvement.

In retrospect, it is clear that those public policy decisions didn't take into account other economic factors. The steady and almost unending increase in commodity and land prices, which so many predicted, has not taken place. Bankers, like their customers, must adjust to these changed circumstances, and bankers will be able to make those adjustments along with their customers if they are given the time they need.

And while initiatives to deal with specific problem areas before us today should be pursued, the most important action Congress could take to assure the long-term continued strength of our banking system would be to give banks the flexibility they need to pursue new and alternative sources of revenue, and this is the key to continued, steady growth in earnings, which is an essential element to the safety and soundness of our banking system.

Now, turning to the agricultural lending issue, agricultural lenders in general and agricultural banks in particular have experienced financial stress in recent years. Consequently, a large number of farmers, particularly family farmers, have found it difficult to service their debt.

In order to respond to this difficult situation, Mr. Chairman, a few months ago I announced the creation of a joint task force of the American Bankers Association and the Independent Bankers Association of America to develop recommendations to respond to the agricultural finance crisis.

This task force addressed three major aspects of the agricultural credit problems facing commercial banks and their borrowers.

The first element, bank capital. It is difficult for bankers to provide new credit for planting, to restructure existing debt, or to work out solutions of other credit problems if they are in imminent danger of facing regulatory action because their capital level is below 6 percent or any given percentage.

The sudden change in the agricultural economy is resulting in great increases in agricultural loan chargeoffs. Banks need time to absorb these loans so they can continue to work with their borrowers and remain of service to their communities.

Our proposals outlined in my written statement are not the only possibilities. We are willing to discuss any serious proposal designed to address the problems of stress on banks' capital levels.

On Tuesday, the bank regulators announced a joint effort which would be of some substantial assistance on the capital issue. This is obviously a constructive first step which will give bankers some breathing room to help our farm customers stay in business and work toward stabilization of the total farm economy.

But we are not yet convinced, although we are continuing to study them, that the reach of these proposals is sufficient to provide the temporary and transitional breathing room that now is needed, and so our detailed proposals on the bank capital issue are set forth in my written testimony.

The second aspect of our recommendations concerns the financial condition of farm borrowers. Measures are needed to stabilize the debt situation of agricultural borrowers and allow them to service their debt on a cash-flow basis. We have recommended measures to assist borrowers, among them being the possibility of further expansion of the Farm Home Administration Loan Guaranty Program and authority.

The third aspect of our recommendations relates to farm real estate values. Stabilization of land values is a necessary prerequisite to the restoration of health in the agricultural economy.

To help achieve this, we seek the development of an institutional secondary market for longer term real estate loans that are originated by commercial banks, as outlined in my written statement.

Turning to the issue of energy lending, we should note that in a very short time the economics of worldwide energy markets have changed radically. In the last 5 months, both spot and contract prices for West Texas Intermediate crude have fallen dramatically. These oil price declines will cause significant problems for many banks in oil and gas producing States.

The extent of these problems cannot yet be determined because the ultimate price level for oil is still uncertain and estimates vary widely.

Nevertheless, we do know that certain States already are feeling the impact heavily. As oil producers are hit, the many industries that have ties to oil producers are also hit.

Unfortunately, some of the States being hit by the oil price decline are also suffering from agricultural problems.

We have no specific policy recommendations, Mr. Chairman, to make at this time with respect to the energy banks. The problems in energy lending are still new relative to those in agriculture and international lending. We will be working with those banks which are being impacted by the oil price decline.

But we should remember that only a few years ago increased energy production was the top national priority, and we will want to help those banks which responded to that need through these difficult times.

With respect to international lending, Mr. Chairman, back in 1983 you and your committee's members recognized the critical role the International Monetary Fund could play in stabilizing the international financial markets.

We thank you, Mr. Chairman, for being so very instrumental in the passage of the legislation that assured adequate resources for the IMF to fulfill its important responsibilities.

But it is not developing countries alone that feel the pressure. In an economically interdependent world, the United States suffers substantial economic energy when developing country markets shrink.

The Baker initiative that was unveiled in Seoul last October proposed a program for sustained growth to provide renewed impetus for resolving developing countries' debt problems. Secretary Baker's plan for addressing the debt burdens of certain developing nations was a positive and instructive development.

There are no easy solutions to this international lending problem. The recent decline in oil prices has led to increased concern about the situation in oil exporting nations, particularly in Mexico. But what is often overlooked is the favorable impact of the decline in the oil prices on oil importing countries. In addition, recent declines in interest rates will be a significant help to the debtor nations.

We believe that with time this problem can and indeed must be resolved, and we understand that this committee will be looking at this issue in more detail in the near future, and we will be pleased to work with the committee at that time.

In that connection, one area of great concern to the ABA is the provision affecting foreign tax credits in the tax reform bill approved by the House last year.

Now, we recognize, of course, that the issue is not within your committee's jurisdiction, but we thought it worth bringing to your attention for any input you may offer to the House conferees.

In summary, Mr. Chairman, the condition of our banking system is a reflection of the condition of our overall economy. In the aggregate, both the economy and our banking system are sound, but we must look at the longer term and what must be done to assure continued stability, soundness, and strength. The present structure may not be adequate to the task.

Significant stresses are appearing in several important sectors. Among the most important are agriculture, energy, and international lending, the subjects, of course, of these hearings. The stresses in these areas are mainly the result of the economic volatility that has plagued our economy in the last 10 years.

In my written testimony, I have set forth some specific proposals that we hope the committee will consider. In the agricultural area in particular early action is needed.

But once again, I would hope the committee will soon look beyond the problems in individual sectors of the economy and consider the issue which is most fundamental to a safe and sound banking system—the ability to compete and to follow our markets.

A strong banking system, which is so important to a strong economy, must have the ability to attract capital. We can't attract capital unless we have competitive rates of return, and we can't achieve competitive rates of return in a shrinking market defined by laws enacted largely in the 1930's.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Senterfitt on behalf of the American Bankers Association [ABA] follows:]

STATEMENT OF THE

AMERICAN BANKERS ASSOCIATION

ON

AGRICULTURAL LENDING,
ENERGY LENDING,
AND
LENDING TO LESS DEVELOPED COUNTRIES

PRESENTED TO

THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS,
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

BY

DONALD T. SENTERFITT
MARCH 13, 1986

Mr. Chairman and members of the Subcommittee, I am Donald T. Senterfitt, Vice Chairman of SunTrust Banks of Orlando, Florida and President of the American Bankers Association. Our Association's member banks manage approximately ninety-five percent of the banking industry's assets. I am delighted to appear before you today to testify on the condition of banks insured by the FDIC.

Overall, their condition is sound. In the first six months of 1985, the last period for which we have complete data, banks earned 12.07 percent at an annual rate on their equity. This was up from 10.68 percent in the first six months of 1984. Equity capital as a percent of total assets was 6.28 percent at the end of the first half of 1985, up from 6.07 percent a year earlier. At the end of 1985, the unencumbered reserves of the FDIC were approximately $17.9 billion, their highest level in history.

These statistics are even more impressive when considered in light of the economic history of the last decade. Because the activities of banks are more broadly based than almost any other industry, they must contend with all of the conflicting pressures that are placed on our economy. In the past ten years banks have had to deal with near hyper-inflation and double digit interest rates. They then had to deal with the effects of a substantial disinflation and a severe recession with large scale unemployment and economic disruption. Like our entire economy, the banking industry is still recovering from this period of trauma and is, on the whole, doing quite well.

Despite the fact our economy and our banking system are strong, there are important segments of both that are experiencing difficult adjustment problems. By focusing on three of the most important areas--agriculture, energy, and lending to less developed countries--these hearings should provide an important record of understanding in all three of these problem areas.

Because the activities of the banking industry are diverse and touch all areas of the economy, a strong banking system is a necessary ingredient for a strong economy. Initiatives to deal with specific problem areas should be pursued. However, the most important action Congress could take to insure the long term continued strength of our banking system would be to give banks the flexibility they need to compete and pursue new sources of revenue. This is the key to the continued growth in earnings, which are an essential element to the safety and soundness of our banking system. On this point, let me quote the testimony before the Senate Banking Committee last week of Comptroller of the Currency, Robert L. Clarke.

> "Banks, as providers of insured deposits and key participants in the nation's payment system, play a vital role in our economy. However, the entire financial services industry, of which commercial banks are but one part, is undergoing unprecedented change. The continued viability of the banking system demands that we allow it to adjust to that change. If we fail to do so, banks will have little choice but to engage in greater risk-taking within the markets available to them. The likely result of that trend, based on our observations, will be reduced profitability. Over time, that will materially reduce the ability of the banking system to compete and deliver products that consumers demand."

We hope this Committee will consider these long term implications and the need for greater flexibility for banking to compete in the rapidly evolving market for financial services.

AGRICULTURAL LENDING

Agricultural lenders in general and agricultural banks in particular have experienced financial stress in recent years. This stress is centered on the difficulties currently being experienced by farmers as a result of a continuous decline in commodity prices and land values since the late 1970's. Consequently, a large number of farmers--particularly family farmers--have found it difficult to service their debt.

Commercial banks hold a large portion of the agricultural debt. The Federal Reserve Board estimated that during 1985 commercial banks held approximately $47 billion or 22 percent of the total. A large portion of farm debt (80 percent) held by commercial banks is in the form of farm production loans. As of December 1985, commercial banks held approximately $36 billion of farm production loans, making them the largest lender for farm production purposes.

As the agricultural economy goes through a period of adjustment, so are lenders to this key area of our economy. Thus, strains on commercial banks that lend to agriculture have been mounting.

Delinquency rates on farm loans at commercial banks have been trending upward. In September 1985, 9.2 percent of farm production loans outstanding were classified as either non-performing loans or past due 30 to 89 days. This was 2.7 percentage points above the level experienced during the same period in 1984, and up 4.2 percentage points from 1983. Much of the upward trend in delinquency rates consisted of increases in non accrual loans, which grew from 3.8 percent in September 1984 to 5.6 percent in September 1985. In the first half of 1985, farm loan charge-offs were almost double those experienced the previous year.

Farm production loans charged off by insured commercial banks totaled $900 million in 1984, up from $436 million the year before. In the first three quarters of 1985, charge-offs came to $755 million. If this trend continues, FDIC estimates that the total of such charge-offs at commercial banks may come close to $1.5 billion for the full year of 1985.

The adjustment process in agriculture has weakened many farmers and contributed to the deterioration of agricultural banks. This certainly does not mean that large loan charge-offs and lower profitability at agricultural banks threaten the safety and soundness of the entire financial system. But the spiral of farm foreclosures and bank failures is harming not farmers and bankers alone, but also the communities they serve. These farmers and banks and their surrounding communities can be expected to survive, but only if they are given more time to adjust to the massive changes now going on in agriculture.

Mr. Chairman, a few months ago, I announced the creation of a Joint Task Force of the American Bankers Association and the Independent Bankers Association of America to develop recommendations to respond to the agricultural finance crisis. This Task Force addressed three major aspects of the agricultural credit problem facing commercial banks and their borrowers: (a) bank capital, (b) borrowers' financial conditions, and (c) farm real estate values. Most of these recommendations are designed to give participating institutions the time needed to resolve the problems created by the downturn of the agricultural economy.

It is difficult for bankers to provide new credit for planting, restructure existing debt, or work out solutions to other credit problems if they are in imminent danger of facing regulatory action because their capital level is below 6 percent. As stated earlier, the sudden change in the agricultural economy is resulting in great increases in agricultural loan charge-offs. Banks need time to absorb these losses so they can continue to work with their borrowers and remain of service to their communities. Sticking to a rigid rule on capital will not serve the public well in agricultural communities that need banking services.

Bank capital requirements are an important regulatory tool. In particular, they provide a buffer that helps protect deposit insurance fund reserves. However, in order to assist agricultural bankers under these special circumstances we recommend that special measures be implemented to stabilize the capital structure of agricultural banks. Agricultural banks traditionally have been well capitalized. However, the persistent downturn in the farm economy since 1981 has put severe pressure on the capital structure of hundreds of agricultural banks. Given time, the agricultural economy will recover, providing a basis for greater earnings and replenishment of the capital structure of agricultural banks.

What is needed now are measures to prevent the capital of prudently managed banks from being precipitously eroded due to circumstances beyond these banks' control. Such erosion could cause the premature closing of such banks or a contraction in their lending activities. These actions in turn could cause bankruptcies and foreclosures on prudently managed farms that are in difficult straits, but which can recover. Our proposals are not the only possibilities. We are willing to discuss any serious proposal designed to address the problem of stress on banks' capital levels.

Our first priority to preserve bank capital is to allow banks to amortize their loan losses over a number of years. The amortization plan would enable banks to cover their agricultural losses over time through internally generated earnings. Under current federal policies, a bank must immediately charge the full value of a loan that is considered a "loss" against its loan-loss reserves. This causes a decline in the bank's capital which, if it is below the regulatory minimum, must be replenished before new loans are made.

The primary argument for allowing lenders to take their losses over time is based on the recognition that the farm economy is undergoing dramatic change and that borrowers and lenders each need time to adjust to new conditions. Since the agriculture sector will again be profitable, allowing lenders to spread their losses over time is justifiable. This proposal would give the whole agricultural economy time to adjust without further accelerating the economic disruption now occurring in rural communities.

Capital infusion is another technique that would aid banks with problems in their agricultural loan portfolio. Under such a program, the FDIC would inject capital into those banks that have been adversely affected by the current economic situation but are still judged to be prudently managed. When the agricultural economy recovers and these banks return to profitability, the capital supplied by the FDIC could be replaced by capital from internally generated earnings.

Mr. Chairman, a third option we have discussed as a means to achieve capital stability is to authorize agricultural banks to use capital certificates similar to net worth or income capital certificates currently used for certain thrift institutions. From a public policy viewpoint, banks which extend agricultural credit to their farm customers are not materially different from those lending institutions which provide mortgage credit to American home buyers. Both agriculture and housing are areas where, as a matter of national policy, banks were encouraged by Congress to lend. Thus, as a matter of equity between rural America, with the majority of agricultural loans, and urban America, with most housing loans, there is justification for amending Title II of the Garn-St Germain Depository Institutions Act of 1982 to include insured agricultural banks.

However, the use of net worth certificates by thrift institutions has not been well received by the accounting profession and has tended to cause confusion in the investment community. Therefore, it is our recommendation that a net worth certificate program be instituted only as an adjunct to a more straightforward temporary capital stabilization program administered through the bank regulatory agencies with primary emphasis placed either on capital forbearance or loan amortization.

Also, if Congress decides to extend Title II of the Garn-St Germain Act beyond its April 15, 1986 expiration date, the ABA supports an amendment requiring all insured depository institutions to achieve the same ranges of capital over a reasonable implementation period. Deviation from general capital and accounting standards should be limited in scope and time to what is necessary to address specific problems. In the long term, all depository institutions should play under the same rules and we believe the thrift industry should, after an appropriate phase-in period, abide by capital and accounting standards equivalent to those of the banking industry.

While outside the jurisdiction of this Subcommittee, there is a tax issue which should be mentioned. Under the current Internal Revenue Code, banks that experience a net operating loss may deduct that loss against income from their prior ten years of operations and, if necessary, from their next five years. The House passed tax bill (H.R. 3838) would only permit banks to carry losses back to three years, while carrying them forward fifteen years. For banks that experienced losses and had no income in earlier years, this change would be beneficial. Many banks, however, particularly in the farm belt, had income in earlier years but currently are experiencing heavy losses. The provision in present law allowing banks to look back ten years was designed to help cushion banks in this position. If this change were to become law, without even a phase-in period, agricultural banks with net operating losses would be hurt.

It is particularly important that changes be made soon that can help with the current credit and cash flow problems facing farmers and commercial banks in many of our major agricultural regions. We compliment this Committee for turning its attention to the credit issue at this time. There should be a sense of urgency associated with the short-term proposals.

The objective of our proposals is to provide those banks and farmers who have the potential to survive with the opportunity to return to profitability. Given the dramatic rate of adjustment in the agricultural economy occurring at this time, without some programs such as those described above many banks and borrowers with previously successful operations face insolvency.

In recent testimony before the Senate Banking Committee, banking regulators announced the following measures to deal with agricultural credit problems:

- Direct capital forbearance. Under this program a bank experiencing difficulties will be allowed to operate below the minimum capital requirement provided the bank has the capacity to restore capital within five years.

- The banking agencies reaffirmed their policies not to discourage banks from forbearing on farm loans through appropriate debt restructuring when there is reasonable prospect that the borrower will eventually be able to repay the loan.

- Loans that have been restructured will not be required to be charged off. The value of the restructured credit can be maintained as long as the total of anticipated future cash receipts under the new modified term equals the principal value of the loan.

- Regulatory and reporting disclosure requirements will be changed so that restructured debt will not be lumped with non-performing loans. Instead they will be reported in a separate category "Restructured in Compliance With Modified Terms"

This is a constructive first step which will give bankers some breathing room to help the farm customers stay in business and work toward stabilization of the total farm economy. ABA looks forward to working with regulators and Congress to develop comprehensive solutions to the farm crisis.

In addition to action to stem the erosion of agricultural banks' capital accounts, measures are needed to stabilize the debt situations of agricultural borrowers and allow them to service their debt on a cash flow basis. We recommend further expansion of the Farmers Home Administration loan guarantee programs and authority, and a clarification of the Farmers Home Administration's preparedness to provide direct loans to qualifying farmers who cannot be financed in full by commercial lenders.

Stabilization of land values is a necessary prerequisite to the restoration of health in the agricultural economy. To help achieve this we seek the development of an institutional secondary market for longer term real estate loans originated by commercial banks. A secondary market would provide access to additional funds and diversify the risks and returns from farm lending. One option that might help achieve this is to pool FMHA guaranteed loans for resale as mortgage backed securities to investors.

Proposals for warehousing of problem agricultural loans and/or acquired assets also merit examination. We hope this Subcommittee will also examine the merits of permitting banks to hold real estate assets for a longer period of time.

In sum Mr. Chairman, we believe these are the issues the Congress should address:

- The capital position of agricultural banks needs to be stabilized.
- The financial condition of farm borrowers needs to be stabilized.
- Farm real estate values need to be stabilized.
- Capital and accounting standards for all depository institutions should eventually be made the same.
- Tax changes which inhibit the ability of banks and their customers to adjust to agricultural conditions should not be enacted.

ENERGY LENDING

In a very short time, the economics of world-wide energy markets have been changed radically. In the last five months, the spot price for West Texas intermediate crude oil has fallen from a peak of over $31 a barrel to a little over twelve dollars a barrel today. The contract price for this oil has fallen from over $27 a barrel to $20. Of course, oil markets are international and prices in other areas have fallen by similar amounts.

These oil price declines will cause significant problems for many banks in oil and gas producing states. The extent of these problems cannot yet be determined because the ultimate price level for oil is still uncertain; estimates vary widely. Nevertheless, we do know that certain states are feeling the impact heavily already. As oil producers are hit, the many industries that have ties to oil producers are also hit. Unfortunately, some of the states being hurt by the oil price decline are also suffering from agricultural problems. In the international area, oil producing countries are, of course, having increasing problems, as will be discussed further below.

But it is important to note that in general the decline in oil prices is a positive development for the overall U.S. economy and many of the countries that are net oil importers. The lower oil prices will allow inflationary pressures to moderate and will benefit consumers and energy intensive industries. Lower interest rates and increased growth seem a likely result. In general, as is the case with agriculture lending problems, we believe that the problem is manageable in terms of the overall strength of the financial system.

We have no specific policy recommendations to make at this time with respect to energy banks. The problems in energy lending are still new relative to those in agriculture and international lending. We will be working with those banks which are being impacted by the oil price decline. It was only a few years ago that increased energy production was a top national priority; we will want to help those banks which responded to this need through these difficult times. Our discussions with bank regulators indicate that programs designed for agricultural banks could be extended to energy lending banks as well, and we will be studying this possibility.

INTERNATIONAL LENDING

Mr. Chairman, back in 1983, you and your Committee's members recognized the critical role the International Monetary Fund (IMF) could play in stabilizing the current international financial difficulties. We thank you, Mr. Chairman, for being instrumental in the passage of the legislation that assured that the IMF has adequate resources to fulfill its important responsibilities.

Under present economic conditions, countries in balance of payment difficulties need financing to allow their adjustment programs to work. In 1982, when the prolonged recession, the continuing weakness of commodity prices, and the sharp rise in the interest component of debt servicing led to a sudden runup in the amounts in arrears and in the number of requests for debt rescheduling, the climate for international lending suddenly chilled. Many banks would have preferred to withdraw but recognized that collectively such action would have placed their foreign assets in jeopardy.

Under these circumstances, the IMF has been playing an active role to prevent a precipitous withdrawal of funds and maintain a credit structure that included many official and private lenders in addition to banks. The result has been to prevent far reaching damage to the international credit system on which international trade and economic growth depend. It has also allowed the debtor countries to negotiate more realistic payment schedules with their private and official creditors, while reordering their domestic economies to place their external borrowing on a sounder footing.

It is not only developing countries that feel the pressure. In an economically interdependent world, the U.S. suffers substantial economic injury when developing country markets shrink, thereby directly reducing U.S. exports, jobs and profits.

The Baker Initiative that was unveiled in Seoul last October proposed a "Program for Sustained Growth" to provide renewed impetus for resolving the debt problem. Secretary Baker's plan for addressing the debt burdens of certain developing nations was a positive and instructive development.

Banks representing more than 95 percent of loans to the 15 countries included in the Baker plan have indicated that they welcome the initiative. The initiative builds directly on the program and approaches of the past three years, including a central role for the IMF. It also implies much more active lending by the international banking community and Multinational Development Banks (MDBs). The success of such policies for growth will require both financial discipline and fundamental economic change -- change toward more efficient, market-oriented economies, more room for private initiative, and more investment and competition. Sound policies in the principal debtor countries will not only promote growth but will also stimulate the much needed private bank lending.

There are no easy solutions to this international lending problem. The recent decline in oil prices has led to an increased concern about the situation in oil exporting nations - particularly Mexico. What is often overlooked is the favorable impact of the decline on the oil importing countries. In addition, recent declines in interest rates will be a significant help to the debtor nations. Some key countries, such as Argentina and Brazil, have shown the willingness to take difficult steps in order to improve their economies. We believe that with time this problem can, and indeed must, be resolved.

One area of great concern to the ABA is the provisions affecting foreign tax credits in the House-passed tax reform bill. Again we recognize that the issue is not within your jurisdiction, but we thought it worth bringing to your attention. The House-passed bill would significantly restrict the use of the foreign tax credit. Current law allows U.S. banks to take a full credit for withholding taxes paid abroad, subject to the overall foreign tax credit limitation. The proposed restrictions of H.R. 3838 would have serious adverse effects on U.S. bank export financing. Because of the role foreign loans play in financing the sales of U.S. commodities and goods abroad, a reduction in the availability or utility of the foreign tax credit to commercial banks would have an adverse impact on U.S. trade, our balance of payments, and U.S. domestic employment.

Our member banks are also concerned that the proposal would be extremely cumbersome, complex and costly to apply. It requires foreign income to be traced to the country where the loan was made. This would be particularly difficult for the banking industry because of the production of its business through a world-wide network of branches.

In sum, the International Lending Supervision Act of 1983, the IMF refunding legislation, and the initiatives of Secretary Baker have been constructive and positive developments in the management of difficult international debt problems. The most important action Congress could take at this time would be to not enact restrictive tax rules that would inhibit the adjustment of borrowers and impede economic growth.

CONCLUSIONS

The condition of our banking system today is a reflection of the condition of our overall economy. In the aggregate, both the economy and our banking system are doing very well. However, significant stresses are appearing in several important sectors. Among the most important, agriculture, energy, and international lending are the subject of these hearings. These stresses are mainly the result of the economic volatility that has plagued our economy in the last ten years. The approach to hyper-inflation at the end of the seventies and the substantial disinflation and severe recession that followed it created significant economic disruptions. Commodity prices were particularly volatile and the commodity and natural resource sectors were particularly hard hit.

Our economy is now on a much more even keel. However, significant structural adjustments are still required by those sectors that were hardest hit by this volatility. The same is true of banks that lend to these sectors. Careful and deliberate thought should be given to policy initiatives that would help these sectors and the banks that lend to them make the needed structural adjustments. We have made some specific recommendations in the agricultural area which we urge the Committee to consider. We appreciate the Committee's concern and look forward to working with you toward solutions.

Chairman St Germain. Thank you, Mr. Senterfitt.

Now, we will hear from Mr. Dean, who appears on behalf of the IBAA.

You may proceed.

STATEMENT OF JOHN C. DEAN, CHAIRMAN, AGRICULTURE-RURAL COMMITTEE, INDEPENDENT BANKERS ASSOCIATION OF AMERICA [IBAA]

Mr. Dean. Thank you, Mr. Chairman. My name is John C. Dean. I am chairman of the Agriculture Committee of the Independent Bankers Association of America, a trade organization representing over 7,400 community banks.

I also serve as president of the Glenwood State Bank in Glenwood, IA, a rural bank in a rural community.

The IBAA appreciates your scheduling these hearings.

Although many agricultural banks have been very well capitalized in previous years, major farm losses are now eroding the capital structure of hundreds of farm banks. Over 500 agricultural banks have primary capital ratios of less than 8 percent, and another 1,450 of these banks have 8 to 10 percent.

But more frightening, these figures do not just take into consideration the full charge off of farm losses in 1985, which the Federal Reserve has estimated would exceed $1.2 billion.

In agriculture I think we all got overly pessimistic and overly optimistic. In years past we got overly optimistic with the idea that things were going to stay good forever.

I think there is a great tendency now to get overly pessimistic in agriculture. Things are not going to just cease. Agriculture is going to be there, and we have to stay there to help these agricultural borrowers.

With the farm credit amendment signed by the President last December, Congress responded to similar problems being expressed by the Farm Credit Bank. The explicit Federal financial backup provided to the Farm Credit System by that legislation guaranteed that the Farm Credit Bank and their borrowers will continue to have access to the capital markets at favorable rates.

With that legislation in place, the Farm Credit System was able to charge off almost $3 billion in loan losses for 1985 without incurring significant deterioration in the Farm Credit Bank's lending capacity or impairing the System's access to the capital markets at favorable rates.

Commercial agricultural banks and their farm borrowers must be provided with a program for the stabilization of capital comparable to what was done for the Farm Credit System. This program should be done now.

Because of the critical time factor, we prefer that the regulatory agencies take the initiative and deal with this problem by adjusting their policy, and we are encouraged by the measures outlined by the regulators earlier this week.

However, while we applaud their statements and hope that legislation is not necessary, we still think there is a big problem at this time. It seems clear that three things need to be included in any specific capital program.

First, an agricultural bank must be able to maintain its full loan lending limits in order to help its farm borrowers and to preserve its earning potential.

Since a bank's limit on the size of individual loans is directly related to its capitalization, the bank's capital structure must be temporarily stabilized in order to preserve its capacity to meet the credit needs of its farm borrowers.

Second, adjustments in regulatory policy need to address not only exceptionally well capitalized agricultural banks whose capital may drop down near the 6-percent standard, but also those banks that without a capital stabilization policy would slip below the 6-percent standard but would still retain reasonably good prospects for recovery over time.

Based on figures cited earlier, there are several hundred agricultural banks in this category whose capacity to help their customers and the turnaround potential is dependent upon having some means of preserving their capital.

Third, in implementing a capital stabilization program, explicit adjustments need to be made in the regulatory policy which go beyond lip service that capital forbearance should be practiced. These adjustments should spell out revised regulatory standards that will be applicable on a consistent basis to agricultural banks.

As indicated, we are encouraged by the steps being taken by the bank regulators earlier this week, and we urge that these measures be quickly fleshed out and finalized.

A major attractiveness of the loan loss amortization is that it will enable a bank to maintain its ability to serve its financial borrowers by preserving the bank's capital for purposes of determining the size limit on individual loans.

Bankers prefer this option, and permitting the amortization of loan losses would result in no Treasury cost. In addition, allowing banks to amortize certain farm loan losses could reduce the ultimate draw on the FDIC fund resulting from the agricultural debt problem by enabling banks to hold their stronger farm customers and thus keep their earning potential from deteriorating.

In many instances, amortizing losses may enable banks to stick with farm borrowers over a longer debt workout period. With a loss amortization policy, bankers will have more confidence and they will have an opportunity to rebuild their capital structure over time.

As indicated, such a policy would also permit agricultural banks to meet the credit needs of the larger farmers with larger lending needs. By helping banks to continue to finance farm borrowers, the policy will assist in holding farmland off already saturated markets in many areas of the country, thus helping——

Chairman **St Germain**. Excuse me, Mr. Dean. Let me ask you something.

Mr. **Dean**. Yes, sir.

Chairman **St Germain**. When you talk about the larger borrowers with the larger needs, are you talking about the corporate farms?

Mr. **Dean**. No, sir. I am talking about the farms——

Chairman **St Germain**. Let's say you have the small farmer as had been described to us yesterday by some of our eminent colleagues; that is, a part-time farmer who works at something else but also farms on the side. Then you have the small farmer that depends solely on the farm income for the family income, and then you have the corporate farmer.

Now, which one are you referring to when you speak of the large farmer?

Mr. DEAN. I suppose, Mr. Chairman the definition of "large" depends on where you sit, how big "large" is. In our bank, our legal loan limit is $160,000. To us, $160,000 is a large farmer.

In corporate farming you get into millions.

Chairman ST GERMAIN. OK.

Mr. DEAN. In agricultural Iowa, a large borrower would be one who borrowed from $100,000 to $200,000.

Chairman ST GERMAIN. OK.

Mr. DEAN. These people are full-time farmers——

Chairman ST GERMAIN. Yet are not in the corporate category?

Mr. DEAN. No, sir.

Chairman ST GERMAIN. Thank you.

Mr. DEAN. And those are the ones that we have to—we are going to keep on the farm.

One of the farm problems out there, as I am sure you are aware, some people thought maybe the bankers were careless in their lending. I think the problem is most of us cared too much. We wanted to keep those guys just 1 more year, and we would loan to them to keep them on the farm. It had always turned around before. This time it hasn't.

But those are the people I am talking about.

We ought to. The capital forbearance that has been talked about by the regulators is a good plan. It will help. It goes at least partway toward what we want. Both Comptroller Clarke and Chairman Seidman have said that capital forbearance is really a variation of loan loss deferral plan. But a better one, we think, would permit banks to place a portion of their agricultural loan charge off into a segregated fund.

This is going part way toward what we think we need. If it is now fully implemented as a regulatory policy, this can be a capital forbearance policy which achieves the desired result in loan loss applications.

As indicated, this is a variation of the loan loss amortization.

With regard to the less developed countries, I picked up a paper today with an editorial by Congressman Schumer referring to that. If I may quote from it, it says: "The major debtors are now so——"

Chairman ST GERMAIN. Are you quoting from Congressman Schumer or the editorial?

Mr. DEAN. From his editorial in the New York Times.

Chairman ST GERMAIN. You are going to read us a Schumer editorial? OK.

Mr. DEAN. May I? [Laughter.]

Chairman ST GERMAIN. Yes, just kidding [laughing].

Mr. DEAN. May I? I thought it was applicable. He was referring to the major debtors in the less developed countries. "The major debtors are now so deeply in the hole that they cannot repay the banks without ripping apart their economic, political and social fabric."

This is what is happening in the rural areas. We see suicides. We see bankers being shot. We see FmHA people commit suicide. The economic and social fabric in the rural area is being torn apart, as he says in these other countries.

He goes on to say that: "More important, the decline in Latin America per capita income—15 percent since 1982—carries potentially serious social consequences."

In agriculture the decline has been much more than 15 percent.

He goes on to say:

"Third World debt is simply unpayable as structured. We cannot continue to ask debtor countries to ruin their economies by putting all their dollars into debt repayment. But we also cannot pass the full burden back to the banks. Meanwhile, the U.S. Government must help ease the banks pain by allowing write-downs over a long period of time and by urging regulators to be flexible."

Which is precisely the same thing we have in agriculture. We could just go right down the line on it.

We are mindful of the fact that statutory authority for the thrift networth certificate program and certain other provisions of the Garn-St Germain Act of 1982 expire on April 15.

Unless an adequate regulatory response is finalized, we need to work with you to assure that legislation is not extended without including an effective program to help the agricultural borrowers at agricultural banks.

If an agricultural loan loss amortization program is established, this will not disguise problem loans from the regulatory agencies but, in fact, will facilitate cleaning up their balance sheets by charging off the loan where chargeoffs are warranted.

The other side is the secondary market, what we have discussed and which fits in here to a certain extent. It's essential for the agricultural sector and the community banks to find a secondary market for real estate agricultural loans.

In the rural areas, the long-term agricultural financing has almost dried up. If secondary marketing institutions can be established for farm mortgages, commercial agricultural banks can originate a much greater volume of real estate mortgages and sell them to a secondary market.

However, it will probably be necessary to have government support, at least initially, to secure the farm mortgages originated by commercial banks and offered for sale through secondary market channels in order for a secondary market to have an opportunity to become firmly established.

Finally, I wish to reiterate the very compelling need for action to be finalized now, during the heavy lending season in agriculture, which adjusts regulatory policies so as to enable banks to preserve their capital and their lending capacity.

This is critical for farmers generally who are seeking 1986 financing. The ability of farmers to secure financing is dependent upon the strength and the capacity of the financial institutions that supply the funds.

And that underlying strength is being severely tested at this time. Last December, certain explicit steps were taken to shore up the Farm Credit Sytem's financial capacity, including an explicit

Federal backstop for the Farm Credit System to access to the credit market on favorable terms.

The difficulties of commercial agricultural bankers and their borrowers must now be addressed on an equal footing.

Thank you.

[The prepared statement of Mr. Dean on behalf of the Independent Bankers Association of America [IBAA] follows:]

TESTIMONY

of

John C. Dean
President
Glenwood State Bank

Glenwood, Iowa

and

Chairman, Agriculture-Rural Committee

INDEPENDENT BANKERS ASSOCIATION OF AMERICA

Hearings on

Agricultural Debt Problems and
Condition of Depository Institutions

Before the
House Committee on Banking, Finance and Urban Affairs
Subcommittee on Financial Institutions
Honorable Fernand St Germain, Chairman

Washington, D.C.

March 13, 1986
2128 Rayburn House Office Bldg.

Mr. Chairman, my name is John Dean and I am chairman of the Agriculture-Rural Committee of the Independent Bankers Association of America (IBAA), a national trade association representing over 7400 community banks. I also serve as president of the Glenwood State Bank in Glenwood, Iowa. The IBAA appreciates your scheduling these hearings.

Although many agricultural banks have been very well capitalized in previous years, major farm loan losses are now eroding the capital structure of hundreds of farm banks. Over 500 agricultural banks have primary capital ratios of less than 8 percent, and another 1450 of those banks have 8-10 percent capital ratios. Furthermore, those figures do not take into consideration the full charge-offs of farm loans in 1985, which the Federal Reserve has estimated (probably conservatively) will exceed $1.2 billion, or 3 percent of such loans that were held by the banks.

With the Farm Credit Act Amendments signed by the President last December 23, Congress and the Administration responded to similar problems being experienced by the Farm Credit banks. The explicit Federal financial backstop provided to the Farm Credit System by that legislation guarantees that the Farm Credit banks will continue to have access to the capital markets at competitively faverable rates. With that legislation in place, Farm Credit was able to charge off almost $2.7 billion of loan losses for 1985 without incurring significant deterioration in the Farm Credit banks' lending capacity or impairing the System's access to the capital markets at favored rates.

Commercial agricultural banks and their farm borrowers must be provided with a program for the stabilization of capital comparable to what was done for the Farm Credit System. Such a program is needed now,

within the next fifteen day period which is critical for agricultural banks to work with their farm customers in arranging for this year's operating loans. Because of this critical time factor, we prefer that the regulatory agencies take the initiative and deal with this problem by adjusting their regulatory policies, and we are encouraged by the measures outlined by the regulators earlier this week. However, we are prepared to pursue legislation if the necessary regulatory actions are not finalized.

As we have discussed options for easing the farm debt problem with bankers, bank regulators and farm groups, it seems clear that three things need to be included in any specific capital stabilization program that is implemented:

(1) First, an agricultural bank must be able to maintain its full individual loan lending limit, in order to preserve its earnings potential. Since a bank's limit on the size of an individual loan is directly related to its capitalization, the bank's capital structure must be temporarily stabilized in order to preserve its capacity to meet the credit needs of larger, generally stronger farm borrowers. Conversely, if loan charge-offs precipitously deteriorate a bank's capital and its ability to finance its stronger farm customers, the bank risks losing those borrowers and permanently impairing the institution's ability to rebuild earnings from a strong customer base.

(2) Second, adjustments in regulatory policy need to address not only exceptionally well-capitalized agricultural banks, whose capital may drop down near the 6 percent regulatory standard, but also those banks that without a capital stabilization policy would slip below the 6 percent standard but would retain a capital cushion and reasonably good prospects

for recovery over time. Based on the figures cited earlier, there are several hundred agricultural banks in this latter category, whose capacity to hold onto their stronger customers and retain their earning and turnaround potential is dependent upon having some means of preserving their capital.

(3) Third, in implementing a capital stabilization program, explicit adjustments need to be made in regulatory policy which go beyond verbal exhortations that capital forbearance should be practiced by examiners on an ad hoc basis. Those adjustments should spell out revised regulatory standards that will be applicable on a consistent basis to agricultural banks. As indicated, we are encouraged by the steps taken by the bank regulators earlier this week, and we urge that those measures be quickly fleshed out and finalized as explicit regulatory policy.

In view of the extreme urgency of getting action to raise the confidence and the capacity of agricultural bankers for dealing with farm financing this year, the Independent Bankers Association of America and the American Bankers Association in January created a joint task force on agricultural credit. The recommendations of that task force, and a joint follow-up letter to the bank regulatory agencies, is attached as a part of my statement.

As indicated in those joint IBAA/ABA statements, the first priority of the banking industry in order to temporarily stabilize bank regulatory capital is a change in regulatory policy permitting the amortization of agricultural loan losses over a multi-year period. The IBAA Executive Committee, at our Annual Convention in Las Vegas which just concluded yesterday, reiterated our support for a loan loss amortization program. A copy of this Special Order on an Agricultural Loan Loss Amortization Program adopted March 8 is also attached to my statement.

A major attractiveness of loan loss amortization is that it will enable a bank to maintain its earning potential by preserving the bank's capital for purposes of determining the size limit on individual loans. In addition, loan loss amortization focuses on the real problem, namely the troubled loan assets, so that the minimum bank capital standards are not altered except temporarily, as provided by the amortized accounting for loan losses. Bankers prefer this option, and permitting the amortization of loan losses could result in no Treasury cost. In addition, allowing banks to amortize certain farm loan losses could reduce ultimate draws on the FDIC fund resulting from the agricultural debt problem, by enabling banks to hold their stronger farm customers and thus keep their earning potential from deteriorating.

Allowing bank to amortize agricultural loan losses should benefit farmers who borrow funds from the banks. In many instances, amortizing losses may enable banks to stick with farm borrowers over a longer debt workout period. With a loss amortization policy, bankers will have more confidence that they will have an opportunity to rebuild their earnings and their capital structures over time. As indicated, such a policy will also permit agricultural banks to meet the credit needs of many larger farmers that might otherwise exceed the banks' loan lending limits. In addition, by helping banks to continue to finance farm borrowers, the policy will assist in holding farmland off already-saturated markets in many areas of the country, thus helping to stabilize farmland values during this critical period.

We recommend a loan loss amortization policy as an effective way to stabilize bank capital temporarily and accomplish the desired objectives. However, we are not wedded to that option if some variation of that option can maintain the banks' lending limits and thus preserve their full capacity to finance their larger customers, including banks that would fall below the 6 percent capital standard, and do so through regulatory policy that is available on a consistent basis to agricultural banks.

For instance, "capital forbearance" could be made to accomplish the desired results, if properly structured and established as a regulatory policy. Comptroller Clarke said the following in his testimony before the Senate Banking Committee two days ago:

> Capital forbearance, which is really a variation on loan loss deferral plans--but a better one we think--would permit banks to place a portion of their agricultural loan charge-offs into a segregated account. The amount in the segregated account could not exceed some percent of the bank's primary capital. Additions to the segregated account could be made during the first two years after implementation of the policy. The segregated account would then be amortized in equal increments during the five years immediately following the addition to the segregated account. Thus, the segregated account would exist for a maximum of seven years.

FDIC Chairman Seidman, speaking to this same type of account in his testimony on Tuesday, stated:

> The special capital account would be similar to a bad debt reserve account but could be used as capital only when necessary to create required capital levels or to provide needed single-borrower capital capacity.

If it is now fully implemented as regulatory policy, this can be a capital forbearance policy which achieves the desired results of loan loss amortization. As indicated, it is a variation of loan loss amortization, with the added advantage of being consistent with generally accepted accounting principles. The regulators should now provide for such an account, make clear that banks are permitted to place loan charge-offs into that account as long as the bank retains a substantial capital cushion even though substantially below the six percent capital standard, and put this into place quickly as a regulatory policy.

We do not presume that those regulatory adjustments need necessarily apply only to agricultural debt. Those regulatory policy adjustments could be applied to troubled energy loans as well. However, in light of what has already been done for the Farm Credit System and the fact that there are over 1700 commercial banks with over 50 percent of their total loans committed to production agriculture (not including agribusiness loans), there seems ample justification for quickly finalizing this capital stabilization policy for the agricultural sector now, before the end of the critical spring financing period.

With regard to the LDC loans, currently the larger banks are allowed to hold troubled foreign debt in their portfolios without the charge-offs that are indicated based upn the quality of much of that debt. A loan loss amortization policy would merely help to assure that bank regulatory policy is as accommodating to debt owed by farmers to community banks as to foreign debt owed primarily to the larger banks.

Although we prefer regulatory action and are encouraged by the steps taken thus far this week, we are mindful of the fact that the statutory authority for the thrift net worth certificate program and certain other provisions of the Garn-St Germain Act of 1982 expire on April 15. Unless an adequate regulatory response is finalized, we need to work with you to assure that this legislation is not extended without including an effective capital stabilization program for agricultural banks.

The question has been raised whether temporarily greater regulatory flexibility with regard to bank capital as it relates to troubled farm loan assets might encourage unsound banking practices. I don't believe that it will, and as indicated, I think that not providing for short-term capital flexibility runs a serious risk of undermining banks' ability to hold onto their stronger customer base which is necessary for earnings recovery. Agricultural banks as a whole are now firmly committed to the principle that borrowers must be able to cash flow their debt out of current earnings, and farmers presently are not making capital purchases unless those purchases are directly related to the bottom line earnings of their operations. However, under the present circumstances, it is often difficult to reach the collateral behind accumulated farm debt even if liquidation is called for. Given the currently depressed markets for farm assets, liquidations may not be practiced in every case where a liquidation is possible. Therefore, bankers' management options are limited, even though committed to sound lending practices, and under those circumstances an adjustment in regulatory policy to allow greater short-term flexibility with regard to bank capital related to troubled farm loan charge-offs is a proper course of action.

Furthermore, if an agricultural loan loss amortization program is adopted, this will not disguise problem loans from the regulators, but in fact will facilitate banks' "cleaning up" their balance sheets by going ahead and charging off loans where charge-offs are warranted. That certainly should not contribute to unsound lending practices. Unlike the situation regarding the Farm Credit System, such short-term flexibility would occur with an "arm's length" regulatory system firmly in place. For the Farm Credit System, rigorous regulatory policies must still be implemented, pursuant to the December 1985 legislation.

Over time, we share the concern raised by the bank regulators that greater asset and earnings diversification for agricultural lenders is needed. One very promising avenue that we are pursuing is the development of a viable and dependable secondary market for longer-term farm loans originated by commercial banks. If secondary marketing institutions can be established for farm mortgages, commercial agricultural banks can originate a much greater volume of real estate mortgages, sell them to secondary investors, and increase the banks' earnings that are derived from loan origination and servicing fees. Therefore, the banks would diversify their earnings, and much of the credit risk on the mortgages would be shifted to other investors.

To the extent that a larger portion of farm real estate credit financing can be securitized through secondary market channels, this could promote overall diversification of credit risks with respect to farm real estate debt, including some of the market share currently held by the government-underwritten Farm Credit System. However, it will probably be necessary to have government support at least initially to secure the farm mortgages originated by commercial banks and offered for sale through secondary market channels, in order for a secondary market to have an opportunity to become firmly established.

Finally, I want to reiterate the very compelling need for action to be finalized now, during the heavy lending season in agriculture, which adjusts regulatory policies so as to enable banks to preserve their capital and their lending capacity. This is critical not only for the lenders and their stronger borrowers, but for farmers generally who are seeking 1986 financing. The ability of farmers to secure financing is dependent upon the strength and capacity of the financial institutions that supply the funds, and that underlying strength is being severely tested at this time. Last December, certain explicit steps were taken to shore up the Farm Credit System's financing capacity, including an explicit Federal backstop for FCS's access to the credit markets on favorable terms. The comparable difficulties of commercial agricultural bankers and their borrowers must now be addressed.

This concludes my statement, and I would be pleased to respond to any questions.

RECOMMENDATIONS OF THE ABA-IBAA TASK FORCE ON AGRICULTURAL CREDIT

February 4, 1986

The banking industry considers it essential that steps be taken early in 1986 to assist commercial banks and their agricultural borrowers in coping with the accumulation of problem farm debt. The IBAA and ABA met jointly in Dallas, Texas, on January 15-16 and, based on that meeting, will seek measures that can help to stabilize the capital structure of agricultural banks and to assist individual agricultural borrowers in managing their debt during this critical period. Recognizing that agricultural banking can return to profitability only when the agricultural economy is again profitable, the fundamental premise of these proposed measures is that agriculture is experiencing massive change and bankers and their agricultural borrowers need a reasonable period of time to adapt.

We will seek to implement such measures through regulatory action to the extent that they can be carried out under existing law, and we will seek legislation where existing law is inadequate. Our Associations will pursue a plan of action involving three main elements: (1) stabilization of bank capital; (2) stabilization of agricultural borrowers; and (3) stabilization of farm real estate values.

Stabilization of Bank Capital

The most immediate problem confronting agricultural banks is the impact on bank capital of sudden and massive agricultural loan losses. In 1984, agricultural production loan losses charged off by commercial banks totalled $900 million--an increase from $436 million in 1983. Such charge-offs for the first two quarters of 1985 were $520 million, almost double the $280 million charged off in the first two quarters of 1984.

These extraordinary charge-offs are eroding the capital structure of many agricultural banks as the loan losses are deducted from the banks' available capital. As a bank's capital is reduced, both the total capacity of the bank to extend credit and the size of individual loans that the bank can make are correspondingly reduced. If a bank's capital falls below the minimum required by the regulatory agencies, the bank is subject to enforcement actions which may lead to closure.

"The Farm Credit Act Amendments of 1985" (PL 99-205), signed by the President on December 23, 1985, was Congress' response to a similiar problem in the Farm Credit System. Faced with mounting agricultural loan losses, the Farm Credit System requested Federal backing to guarantee its continued access to capital in the credit market. Congress and the Administration responded to the Farm Credit System's request for assistance with PL 99-205.

To keep agricultural banks open and to maintain their capacity to extend credit to borrowers, we recommend that special measures be implemented to preserve the capital structure of agricultural banks. Agricultural banks traditionally have been well capitalized, but the persistent downturn in the farm economy since 1981 is severely pressuring the capital structure of hundreds of agricultural banks. The farm economy will recover in time, providing a basis for greater earnings and replenishment of the capital structure of agricultural banks. In the meantime, we need special measures to prevent banks' capital from being precipitously eroded by requirements that banks offset problem farm loan assets whose market value has been reduced.

Our first priority as a means of preserving banks' capital is to change regulatory accounting procedures and enable prudently managed banks to amortize their loan losses over a multi-year period. Such a procedure is relatively simple to administer, would assist a broad segment of banks and their borrowers, and would entail no direct government cost.

Two other options that warrant consideration as ways to assist banks in maintaining adequate capital during this stressed period in agriculture are:

regulator-assisted injections of capital into certain troubled banks. (For example, a qualifying agricultural bank might acquire additional capital from the Federal Deposit Insurance Corporation in the form of debt or equity.);

unfunded capital certificates similar to net worth or income capital certificates currently used for certain thrift institutions.

Because of the potential direct impact on bank's capital, we shall also focus careful attention on proposed changes to the Internal Revenue Code. For example, banks can currently carry net operating losses back ten years and obtain refunds for taxes paid in those years, thereby increasing capital. Proposed tax reform legislation would change the carryback period to three years and any excess losses would be carried forward. If this change were to become law, agricultural banks now incurring net operating losses would lose some of their ability to maintain an adequate level of capital.

We will work with the Administration, the bank regulatory agencies, and the Congress to obtain action early this year to relieve pressure on agricultural banks' capital structure.

Stabilization of Agricultural Borrowers

While we need action early this year to stem the erosion of agricultural banks' capital accounts, we also need stabilization of agricultural borrowers' debt situations and ability to cash flow their debt. For that purpose, we recommend further expansion of the Farmers Home Administration (FmHA) agricultural loan guarantee programs and authority. In the current budgetary situation, the FmHA loan guarantee program is the least costly means of stabilizing and extending agricultural debt. In addition, expansion of the $490 million interest rate buy-down program included in the 1985 Farm Bill would provide major cash flow assistance to agricultural borrowers at minimal direct cost. We also need clarification this year of the FmHA's preparedness to provide direct loans to qualifying farmers who cannot be financed in full by commercial lenders.

Stabilization of Farm Real Estate Values

We seek the development of an institutional secondary market for longer term real estate loans originated by commercial banks. A secondary market would provide access to additional funds and diversify the risks and returns from farm lending. One option is to pool FmHA-guaranteed loans for resale as mortgage-backed securities to investors.

Proposals for warehousing of problem agricultural loans and/or acquired assets also merit continued examination. Permitting banks to hold real estate assets for a longer period of time also merits consideration. Stabilizing land values is necessary to restoring health to the agricultural economy.

Comparable letter was sent to other bank regulatory agencies.

February 28, 1986

The Honorable L. William Seidman
Chairman
Federal Deposit Insurance Corporation
Washington, D.C. 20429

Dear Mr. Chairman:

As you know, the American Bankers Association and the Independent Bankers Association of America are concerned about the precarious state of the agricultural economy and the problems that are resulting to farm borrowers and their lenders. Because of this concern, a Joint Task Force on Agricultural Credit including membership from both of our Associations was formed, and the Task Force was charged with the responsibility of developing specific policy recommendations on what might be done to alleviate the situation. The recommendations of the Task Force, a copy of which are enclosed, have now been adopted as policy by both organizations.

The Report of the Task Force observes that time is of the essence in assisting commercial banks and their agricultural borrowers in coping with the accumulation of problem farm debt. We believe that regulatory action is preferable to legislative action because a regulatory program could be set in place within the next forty-five day period, which is a critical time for agricultural banks as they work with their farm customers in arranging for this year's operating loans. We commend the FDIC for its comprehensive policy analysis, *Farm Bank Problems and Related Policy Options*, which was sent to the Senate Banking Committee on February 18th. Our Task Force and your Agency seem to agree that there is merit in attempting to fashion a program "designed to buy time for participating in situations to resolve the problems created by five consecutive years of weak farm economy."

From a bank perspective, our Associations believe that the most immediate problem confronting agriculture banks is the development of a program to stabilize capital. The structural problems of agriculture are creating a massive amount of losses which have been absorbed by farmers, the government, and bankers in several different ways. Banks have acted with forbearance on many loans and attempted to work with their agricultural customers to the greatest degree possible. However, in a growing number of transactions, banks either have or will soon face the prospect of loan write offs which in turn lead to reductions in a bank's operating capital. Both the FDIC and the Office of Comptroller of the Currency seem to appreciate the dimension of this problem and your Report suggests that there is a realistic possibility that a program of capital stabilization can be implemented on a limited term basis. We offer our assistance in working with you to accomplish this goal at the earliest possible opportunity.

It is our belief that over a period of time, agricultural banks in general have the management expertise to generate improved earnings to replenish their capital base. There are several possible ways in which to provide for capital stabilization. Two approaches which seem the easiest to administer are to either adjust existing regulatory policies by temporarily providing for capital levels below the present level of 6 percent or to provide for amortization of agricultural losses over a multi-year period. Bankers prefer the latter, and this approach was the Task Force's priority means for stabilizing capital.

A major attractiveness of loan amortization is that it preserves a bank's earning potential. Since a bank's individual lending limit is directly related to its capitalization, we favor a system that stabilizes capital without reducing loan limits and amortization of loan losses accomplishes both of these goals by regulatory action within the forty-five day time span that is critical for this spring's planting season. If capital reduction is pursued as the regulatory option, Congress should provide the regulatory agencies with the authority to keep a bank's lending limits at a higher level during the administration of the capital stabilization program.

We are most anxious to work with you in the resolution of this matter. Please do not hesitate to call on our Washington staffs for whatever further assistance they can provide.

Sincerely,

B.F. Backlund
B. F. Backlund
President
Independent Bankers
Association of America

Donald T. Senterfitt
Donald T. Senterfitt
President
American Bankers Association

Enclosure

SPECIAL ORDER UNANIMOUSLY ADOPTED BY THE EXECUTIVE COMMITTEE OF THE INDEPENDENT BANKERS ASSOCIATION OF AMERICA AT THE IBAA 1986 CONVENTION IN LAS VEGAS, NEVADA, MARCH 8, 1986

AGRICULTURAL LOAN LOSS AMORTIZATION PROGRAM

Commercial banks are the largest single supplier of operating credit to farmers, and the banks provide about $40 billion of such operating credit annually. Local banks also supply a major volume of credit to providers of services to farmers and to rural communities.

The commercial agricultural banks now need to have a program to assist in stabilizing their capital levels, and that program is needed within the next 30 days while agricultural banks are working with their farm customers to finalize this year's farming operations.

A loan loss amortization policy can assist farmers in at least two ways. In many instances, it should enable banks to stick with farm borrowers over a longer debt workout period. It will also permit agricultural banks to continue to meet the credit needs of many larger farmers that might otherwise exceed banks' individual loan lending limits. In addition, amortizing loan losses could help to stabilize the market for farmland by reducing the amount of land placed on the market during this critical period.

A program for the stabilization of bank capital must:

°Maintain agricultural banks' individual loan lending capacity, in order to preserve the banks' full earning potential;

°Address the needs of banks that face the prospect of slipping substantially below the six percent capital standard, but that retain a capital cushion and a good prospect for recovery over time; and

°Adjust regulatory policies in order to assure that the capital stabilizing measures are made available to agricultural banks on a broad basis.

We strongly urge that a multi-year loan loss amortization program be put in place quickly, as an effective way to accomplish these objectives. Allowing banks to amortize agricultural loan losses should result in no Treasury cost, and could reduce ultimate draws on the FDIC fund by preserving banks' earning potential.

Chairman St Germain. Thank you. Now we will hear from Mr. Sexton, on behalf of the Conference of State Bank Supervisors.

STATEMENT OF JAMES L. SEXTON, BANKING COMMISSIONER, TEXAS DEPARTMENT OF BANKING, ON BEHALF OF THE CONFERENCE OF STATE BANK SUPERVISORS [CSBS]

Mr. Sexton. Mr. Chairman, members of the subcommittee, I am Jim Sexton, banking commissioner for the State of Texas and president-elect of the Conference of State Bank Supervisors.

As primary regulators, the States have a continuing significant interest in the effects of selling or closing troubled institutions. The role of the primary regulator is to ensure that laws and regulations as to safety and soundness are carried out in the interest of the public, which has a right to a stable and sound financial system.

Despite the various pressures encountered recently in the cornfields of Iowa and in the shadow of see-through commercial office buildings in Houston, there exists some of the Nation's soundest banks.

Mostly, those banks are sound because of longstanding caution and conservatism, excellent management—usually both.

Other banks have taken some damage but they have made the tough decisions, have adjusted to economic reality and will be around to serve another day.

At another stratum across the country, 1,200 banks are in trouble. A portion or percentage of those are in Texas. Among those banks we find frequent manifestation of haphazard loan administration, including faulty, if any, credit analysis, and halfhearted servicing after the loan is made.

While other banks are making the best of a bad thing, many of these have simply been waiting for a miracle.

It is important to note the role that economics play in banking misfortunes. Last year, some of the energy lenders around Texas told me they were making production loans at $15 to $17 per barrel assumptions. At the time anyway, I was comforted by that expression of conservatism, in an area that had occasioned very considerable bad debt accruals around yearend 1983 in the wake of a singularly unsuccessful attempt to promote the development of domestic energy resources, which, as Mr. Senterfitt pointed out, during the days of gas station lines, we thought very, very important.

The construction industry was taken aback by the energy industry reversals that spontaneously and unexpected neutralized the demand for housing and commercial space.

The border economy reels from reversals in the Mexican economy. Our agricultural sector has been heavily affected by the high cost of farm production and the low price of commodities.

In all these areas, banks, due to their inability to unlend funds when the economic winds change, have encountered problems that even the most penetrating initial analysis could not have detected.

There clearly are plenty of opportunities for banks to fall into economic potholes. The more prolonged and acute the problem, the more economics related and less management related will become our problems and our failures.

The argument for closing an institution whose private capital is depleted remains a compelling one. Over the years, the discipline associated with the investment of private capital has furnished a good mix of aggressiveness and caution and has fostered efficiency in the intermediation of funds at all levels of economic activity.

Business as usual, however, also has its costs, and its questionable results. In some cases, small towns are left without banking services. There is also the ever-present cost of the FDIC and the huge administrative burden on that agency.

Another casualty is the borrower whose loan is acquired by the FDIC. Logically, borrowers that need more credit advances and longer term solutions are not as welcome at the local receivership office as they might be at an institution trying to build long-term relationships and having the flexibility to fashion long-term solutions.

Whether those banks that exhaust their capital and whose owners lack the ability or inclination to replace it will be continued to be reflected as failures, as present practice dictates, depends upon what is decided here, and at the various State and Federal bank regulatory agencies.

Mr. Chairman, CSBS comprises banking supervisors from 53 separate jurisdictions. Each has seen their States uniquely and, in some cases, very profoundly affected by the events we are discussing today. Each has their own convictions as to how they can best do the job they are sworn to perform.

In the balance of my testimony, the only thing I can say with certainty is that I do speak for myself, expressing my opinion as to the needs of the institution of private banking, which was conceived and is regulated on the basis that it is expected to live forever.

I believe that alternatives to closing failed or failing banks fall into six general classes, which I will list and discuss briefly in the general order of desirability.

One, encouragement of a failing bank's board to sell out to other private interests having the capability to recapitalize the bank and manage it properly. This private solution, option, is one that I already pursue, as do other regulators. Sometimes, it works. More often, it does not.

Crossing the threshold of private industry solutions there is No. 2: FDIC-assisted private industry solution. Most FDIC-assisted solutions are the often used failed bank, purchase and assumption transactions which feature several shortcomings, mentioned earlier.

The FDIC, perhaps with the assistance of Congress, could devise methodologies that would provide adequate time for potential bidders to properly analyze the value of a distressed bank and prepare informed bids on all the assets of the failed bank.

CSBS has expressed to the FDIC its desire to help fashion such an instrument whose time apparently has come.

Breaking from the solid principle that a bank either takes care of itself or it fails, there is No. 3, outright Federal agency cash assistance to financial institutions.

This methodology both provides coverage of losses and creates an asset with which to generate earnings.

And, No. 4, Federal agency noninterest-bearing paper assistance to financial institutions. This option would include net worth certificates and similar devices that cover losses with presumably good receivables, but provide no wherewithal to create earnings.

Then, crossing the important GAAP threshold. Use of one or more of the sundry forms of non-GAAP bookkeeping whereby debits that should be made to capital or the bad debt reserve are made to some inappropriate asset account.

Then crossing the last and the highest threshold, corruption or distortion of the regulatory process so that assets having limited or no intrinsic value are quite simply deemed to be good by those passing judgment on such things.

In pursuing the last four options, there likely is some impairment of the discipline associated with private capital and the survival instinct. Freed from the restraint of book solvency, bank managers whose banks are in trouble could well become more philosophical than practical in their lending activities, resulting in credit allocation practices that we might not all agree are constructive or even proper from the standpoint of the people that ultimately pay the bills.

A most compelling additional problem with net worth certificates and alternate accounting is their effect on profits. A bank whose net worth has been eliminated mathematically has a low tolerance for nonperforming assets.

With 10 percent of its loan account on nonaccrual or having been placed in a deferred loss account, the bank is practically certain to be operating at a net loss. This operating loss feeds on itself, creating a growing black hole through which all remaining vitality is sapped and all values ultimately lost.

Accordingly, there seems to be a practical limit as to the circumstances in which loss deferral or paper swaps would be appropriate.

In addition to the measures I have outlined there is capital forbearance, which carries a number of risks. I have recently seen a number of deficiently capitalized banks sold to other interests and recapitalized. Others have sold capital against large odds because it was required.

These beneficial exercises likely would be impaired by a program of capital forbearance. And, of course, attempting to enforce dual standards will be most difficult to form on any equitable basis.

The positive part of course is that the books remain honest and disclosure is not compromised.

The interstate acquisition of failing banks appears to promise rewards to stockholders of problem banks. Establishing a Douglas amendment exemption for the benefit of such institutions is quite different from the relevant Garn-St Germain provision in 1982, where the fruits of the exemption flow to the FDIC and serve to pare its losses.

It would seem appropriate that whatever program is devised not be seen as salvation for a certain industry, or the portion of itself that finds itself in trouble. But, instead, should be a businesslike expression of support for good management and good boards wherever they exist.

The program most certainly should recognize that individual bank practices may be at fault no matter the economic cell involved.

Accordingly, there should be insistence on justice for stockholders, directors and officers who may have been instrumental in the failure or failing condition of their bank.

Properly structured, some sound alternative to closing banks would increase the ultimate efficiency of collection activity, would provide some continuity of credit availability to current borrowers, and would continue banking services to communities that otherwise might lose it.

But it is important to consider that changing the rules across the board heightens the opportunity for inadequate bankers to continue their hidden existence among their well-operated brethren at the expense of the system, the deposit insuring agencies and the public.

Thank you, Mr. Chairman. I would be glad to answer any questions.

[The prepared statement of Mr. Sexton on behalf of the Conference of State Bank Supervisors, [CSBS] follows:]

STATEMENT OF COMMISSIONER JAMES L. SEXTON
TEXAS DEPARTMENT OF BANKING

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND INSURANCE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 13, 1986

Mr. Chairman, Members of the Committee, I am Jim Sexton, Banking Commissioner for the State of Texas and President-elect of the Conference of State Bank Supervisors, on whose behalf I am testifying today.

The Conference of State Bank Supervisors (CSBS) is the professional organization of state officials who charter, regulate and supervise the approximately 10,500 state-chartered commercial and savings banks of the nation. Created in the early 20th Century as a clearing house for the ideas of the state bank supervisors on common problems, CSBS has evolved into the major champion of our decentralized American banking and bank regulatory structures. In addition, the Conference has become the most significant single source of educational and research services aimed at strengthening individual state banking departments.

We are pleased to have this opportunity to testify before this Committee and discuss the role of state banking departments in addressing current bank supervisory concerns.

Each state banking department is charged with a broad public interest responsibility toward the entire community served by the banks the agency regulates. This responsibility is shared by the Office of the Comptroller of the Currency (OCC) as the regulator of national banks. As primary regulators, the states and the OCC have a continuing, significant interest in the effects generated by the sale or closing of troubled institutions.

In the context of today's hearing a few comments about the state role, as the primary regulator of state-chartered institutions, are in order.

First, the chartering authorities have a broad interest in the safety, soundness and integrity of the financial institutions in communities throughout their states.

Second, state supervisory knowledge of the community is a valuable resource, and combined with the broad responsibilities of the primary regulator, this knowledge can help state regulators play an important role in legislatively-designed solutions.

Third, the quality of state bank regulation is high and bank regulators are striving to improve both people and procedures.

The role of the primary regulator is to ensure that laws and regulations as to safety and soundness are carried out in the interest of the public who have a right to a stable and sound financial system.

The majority of bank failures have historically been attributed to fraud, improper loans to bank-related individuals and managerial weakness. In current failures it is possible to discover some or all these elements. However, with regard to widespread institutional failures, the state of the economy and economic policy can be seen as significant contributing factors. Macroeconomic shocks cannot, for the most part, be overcome by a regulatory presence.

Farm belt banks, for example, which would not otherwise be classified as troubled, are being affected by four variables which are undermining their health. First, crop production and/or prices have been insufficient to generate revenues adequate to make timely repayments of debt. Second, marketability of crops has been adversely affected by the strength of the dollar. Rebuilding markets lost due to the past strength of the dollar may take a substantial amount of time. Third, persistently high interest rates reflecting a successful fight against inflation by monetary authorities have affected all capital-intensive industries. Finally, the increase in land values that occurred in the 1970's, at least some of which was due to speculation, was unsustainable.

To the extent a bank is located in communities heavily oriented towards agriculture, it runs the risk of facing financial pressures itself. These pressures are felt both in the increase in delinquent loans and in a reduction in the value of collateral--land and farm equipment--which secures these loans. And, of course, it should be remembered that a unit bank lending in a farm community is a "farm bank" and lives or dies with the community regardless of whether it makes direct farm loans.

It is impossible to say whether regulators could have or should have spotted either agricultural or current energy lending problems earlier. For years the business of lending to our food producers had been premised, for the most part, on the borrower's net worth. Bankers realized all along that "cash flow" was relevant to the process and increasingly imposed this requirement on their borrowers as an additional element in analyzing a loan application. Regrettably, however, not enough did so at an early enough point in time. In energy lending, on the other hand, attention has been paid to cash flow analyses as well as to the value of rights secured. However, the decline in cash flow generated by these resources, like the decline in agriculture land values greatly exceeded all reasonable expectations.

State banking departments are constantly improving the assessment techniques used in determining the conditions of financial institutions. They are taking the initiative in developing necessary analytical tools, improving on personnel skills, and building lines of communication with other concerned agencies. This decentralized, yet coordinated effort is indicative of the high level of expertise and commitment which can be found in the community of state banking departments. We are pleased to be represented here today at these hearings on the issue of failed and failing banks.

It is fairly evident that the level of 1985 bank failures is not a "spike" or aberration. We reasonably may expect the number of banks exhausting their capital in 1986 to equal or exceed the 1985 level, and there is presently no solid basis for expecting failures to subside in 1987.

The crack in the armor of an otherwise well-equipped banking system is its inability to adapt to sudden, and worse yet, frequent change. When change inevitably creates its new winners and losers, the system collects its interest and principal from the winners, but lives and suffers with the losers. Such, unfortunately, is the nature of banking. Unexpected economic events have become commonplace in the 80's, and the consequences have been compounded by the fact that they have fallen upon untried bank management that heretofore essentially had been tending a money-making machine. This machine, consisting of regulated deposits and moderate levels of market rate loans made to the better risks, could hardly be stopped from yielding a profit sufficient to entice further investment in bank equities, as long as it was simply left alone and not turned to dishonest or self-serving use.

Despite the various pressures, in the cornfields of Iowa and in the shadow of see-through commercial office buildings in Houston, there exist some of the Nation's soundest banks. Mostly, those banks are sound because of long-standing conservatism, excellent managment, or both. Other banks, there and elsewhere, no longer are as clean as they would like to be and have taken some damage, but they have made some tough decisions, have adjusted to economic reality, and will be around to serve another day.

At another stratum, across the Country, 1,200 banks are in trouble. A proportionate percentage of those are in Texas. Among those banks, we find haphazard loan administration, including faulty, if any, credit analysis and half-hearted servicing after the loan is made. While other banks, injured by unforeseen developments, are out hustling and making the best of a bad thing, many of these have been sitting on their hands, waiting for a miracle. Others have amassed a huge discretionary concentration in some economic cell, actually choosing to expose their health not only to larger economic events, but also to adverse events in one narrow economic undertaking.

In 1985, 120 banks failed from these causes, in addition to the old nemesis: insider abuse. A typical ingredient was management that, because of lack of ability, energy, intergrity or the capacity for making the tough decisions required in this environment, led the banks entrusted to them on a course destined for failure.

It is important to note that economics do play varying roles in banking misfortunes. Last year, some of the energy lenders around Texas told me they were making production loans at $15 to $17 per barrel assumptions. At the time, anyway, I was comforted by that expression of conservatism in an area that had occasioned very considerable bad debt accruals around year-end 1983. The construction industry was taken aback by the energy industry reversals that neutralized the demand for housing and commercial space. The border economy reels from reversals in the Mexican economy. And, of course, our agricultural sector has been heavily affected by the high cost of farm production and the low price of commodities.

There clearly are plenty of opportunities for banks to fall into economic potholes. The more prolonged and acute the problem, the more economics-related and less management-related will become our problems and our failures.

The argument for closing an institution whose private capital is depleted remains a compelling one. Over the years, the discipline associated with the investment of private capital has furnished a good mix of aggressiveness and caution and has fostered efficiency in the intermediation of funds at all levels of economic activity. Business as usual, however, also has its costs and questionable results. In some cases, small towns are left without banking services. This is to some degree reflective of the decline in local growth potential and the resulting scarcity of those willing to acquire the failed or failing financial institution and make the financial commitment necessary to provide local banking services.

There is the ever-present cost to the FDIC, and that cost likely will be compounded by the strong probability that the FDIC, despite its heroic efforts and organizational competence, is operating at well past the peak of its liquidation efficiency.

Another casualty in the current process is the borrower whose loan is acquired by the FDIC. In its fiduciary role as receiver, the FDIC is motivated toward the conversion of assets to cash in the shortest possible time. Logically, borrowers that need more credit advances and longer-term solutions are not as welcome at the local receivership office as they might be at an institution trying to build long-term relationships and having the flexibility to fashion long-term solutions.

Whether those banks who exhaust their capital and whose owners lack the ability or inclination to replace it will continue to be reflected as failures, as present practice dictates, depends upon what is decided here or at the various state and federal bank regulatory agencies.

Experience has shown that there is no single correct answer to all problem situations. Flexibility is required to enable regulators to deal with such problems on a case-by-case basis. Therefore, CSBS has not developed formal policies with respect to specific proposed solutions. I believe that alternatives to closing problem banks fall into six general classes, which I will list and discuss briefly in what I personally consider the general order of desirability:

1. Encouragement of a failing bank's board to sell out to other private interests having the capability to recapitalize the bank and manage it properly.

   This private solution option is one that I already pursue, as do other regulators. Sometimes it works, more often it does not. Determining the collectibility of problem credits, other than obviously dead losses, takes time, current information, visits with the borrowers, and a lot of background research. Typically there just is not that much time available. Even with enough time, the extent of problems normally is such that the transaction cannot be done feasibly without a contribution from the seller, which the seller usually is in no mood to make. An interstate transaction which requires an exemption to the Douglas Amendment, of course, entails special considerations.

2. FDIC-assisted private industry solution.

FDIC-assisted acquisitions of troubled banks were undertaken at Oklahoma National Bank and Abilene National Bank. The buyers in both instances were the banks financing the stockholders of the failing institutions. They had very little time to look, so if the transactions came out well for them, it was pure luck that they did so. It is rare that a buyer will do business on this basis.

Most FDIC-assisted solutions are the often-used failed bank purchase and assumption transactions. Upon the closing of the bank, the FDIC takes some or all of the questionable assets. The more questionable assets it retains, the greater the administrative burden to the FDIC, and the greater the inconvenience and burden on the borrowers whose loans are retained. The more questionable assets the FDIC attempts to pass to the purchases, the fewer bidders will show up at the meeting, and the less the likelihood of enticing someone to bid on the transaction, due to the unquantifiable risk they are being asked to accept.

The FDIC, perhaps with the assistance of Congress, could devise methodologies that would provide adequate time for potential bidders to properly analyze the value of a distressed bank and prepare informed bids.

3. Outright federal agency cash assistance to financial institutions.

   This methodology both provides coverage of losses and creates an asset with which to generate earnings.

4. Federal agency noninterest-bearing paper assistance to financial institutions.

   This option would include net worth certificates and similar devices that cover losses with presumably good receivables, but provide no wherewithal to create earnings.

5. Use of one or more of the sundry forms of alternative bookkeeping whereby debits that should be made to capital or the bad debt reserve are made to some inappropriate asset account.

   Different individuals have different favorites in this area, but there is nothing to be gained by enumerating them. They all look similar, and suffer from the same weaknesses. These comments would not apply to any alternative adopted under Generally Accepted Accounting Principles.

6. Corruption or distortion of the regulatory process so that assets having limited or no intrinsic value are quite simply deemed to be good by those passing judgment on such things.

   This option is listed last and is not discussed at any length because it is the most insidious and deceptive. There would be no disclosure because the problem simply does not officially exist, and dividends would continue, hastening the destruction of capital.

In evaluating the last four options, there arise various thresholds of concern. First, in pursuing any of these courses, there likely is some impairment of the discipline associated with private capital and the survival instinct.

Freed from the restraint of book solvency, bank managers whose banks are in trouble in the present context could well become more philosophical than practical in their lending activities, resulting in credit allocation practices that we might not all agree are constructive or are proper from the standpoint of the people that ultimately pay the bills. The synthetic discipline that might be devised to fill the void, at best, would be inferior. By the artificial disciplines installed, the Congress, the regulators, or both, would have to express a position as to how aggressive or permissive the bank should be in certain areas of its loan administration. I would not look forward to working with that divergence of disciplines.

Once one accepts the first threshold premise that keeping the industry entirely privately owned and self-sustained is expendable, despite the related problems, for the sake of larger priorities, the controlling preference is that the public be served by institutions that are really solvent. The third option I mentioned, cash assistance, can be accomplished by the FDIC under the existing authority embodied in 12 U.S.C. 1823(c). The fourth option, noninterest-bearing paper, is also appropriate in this instance; however, there arise certain cash flow problems.

If solvency according to Generally Accepted Accounting Principles becomes an expendable concern, and the related disclosure problems are considered acceptable, the fifth option, alternative bookkeeping, becomes an option.

A most compelling additional problem with options 4 and 5 is their effect on profits. A bank whose net worth has been eliminated mathematically has a low tolerance for nonperforming assets. With ten percent of its loan account on nonaccrual or having been placed in a deferred loss account, the bank is practically certain to be operating at a net loss. This operating loss feeds on itself, creating a growing "black hole" through which all remaining vitality is sapped and all values ultimately lost. Accordingly, there seems to be a practical limit as to the circumstances in which loss deferral or paper swaps would be appropriate.

Trying to establish some demarcation line between the economic pursuits that warrant whatever relief may be decided upon, and those that do not, seems futile unless done arbitrarily. Without argument, the agriculture industry occupies a unique and inexpendable role in our society and evokes a certain amount of emotion in those of us whose backgrounds have been closely tied to farming. But, at various times, so does domestic energy exploration, which was the darling of a lot of people as they sat in gas station lines in the mid-70's. Buildings in which to house business and industry, Mexican border trade, the domestic manufacture of consumer and capital goods -- all of these and others are of some considerable importance, and all have been affected by macroeconomic changes that have made problem loans of those given the most thoughtful analysis at inception.

It would seem appropriate that whatever program is devised not be seen as a perquisite for a certain industry or, more appropriately, the portion of it that finds itself in trouble. The program, moreover, most certainly should recognition that individual bank practices may be at fault. Accordingly, there should be an insistence on justice for stockholders, directors and officers who may have been instrumental in the failure of the bank. Not only is this treatment proper on its face, it reassures those bankers that are working hard to get past their problems that they are doing the right thing.

Once the stockholders' interests are eliminated, which seemingly should precede the loss of any federal agency funds, and once culpable management is removed, all that is left of the former bank are its presumably hard-working bank employees and utterly nothing to "bail out", eliminating the most basic public policy objection to assisting a private institution.

Properly structured, some sound alternative to closing banks would increase the ultimate efficiency of collection activity, would provide some continuity of credit availability to current borrowers, and would continue banking service to communities that otherwise would lose it.

The decision of what to do with the balance sheet and which of the last four alternatives to choose is actually the easy part. The banks whose lives are continued by these devices must be managed, and managed particularly well. The supply of competent bank managers, especially those willing to go to rural, perhaps remote areas is slim indeed, at least in Texas.

Another related issue is what new measures may be undertaken to assist troubled institutions that are not yet insolvent, thereby avoiding some of the issues discussed previously. Logically, the first idea coming to mind is capital forebearance. In this instance, to forebear is to take off the pressure for a more permanent private sector cure. This idea is at variance with the traditional notion that the worst banks should have more capital, not less, than their well-operated counterparts. This sort of program, if undertaken, should be approached with utmost caution and should be accompanied by prudent controls and sanctions not only to protect the FDIC, but so that operating with inadequate levels of capital is not made an attractive option. Since the FDIC automatically accepts the risk not taken by the stockholders, as would be the case with capital forebearance, there is a reasonable case to be made for the FDIC going ahead and investing cash and perhaps receiving preferred stock in exchange. The bank is a ward of the FDIC in either instance, but with a direct investment, at least the balance sheet is stronger and the depositor is more secure and less apt to run.

Another idea making the rounds is allowing troubled banks to cash in on an exemption to the Douglas Amendment to the Bank Holding Company Act, created just for them. The limited exemption under the Garn-St Germain Act of 1982 created an interstate bonus that flows to the FDIC. Current proposals would have a quite different result, and the bonus would end up in precisely the wrong pocket. There is something inherently wrong with a proposal that creates book value multiples for stockholders selling shares of a poorly-run institution.

Mr. Chairman, I appreciate this opportunity to testify on these important banking issues. I would be pleased to address any questions you and the Committee members may have.

Chairman St Germain. Mr. Sexton, your testimony is intriguing, and, frankly, a little confusing. But, yet, let me ask you this and maybe we can clarify it.

In fact, the last statement you made about the mismanaged—let's use the term mismanagement or poorly-managed institutions amongst their well-managed brethren.

Is it not the function of the regulatory agencies, both State and Federal, to determine whether there is poor management or poor judgment? Loans that were never really and truly looked into, as you stated, then subsequently were not properly serviced and watched over?

So is not one of the solutions here a little better than supervision and regulation?

Mr. Sexton. Yes, sir, that's part of it. But, no matter how good you supervise or regulate or how many regulators you hire, there is no discipline like market discipline, no discipline like capital and watching the capital that you have in your bank and trying to protect it.

Once that capital is gone, an important discipline is lost. Of course we work with banks and we remove management at the State level. Management is removed at the Federal level. They have all the authority in the world, as you——

Chairman St Germain. Absolutely.

Mr. Sexton. But, however, there are degrees at which there is conservatism that swings to the other side of the spectrum, ultra liberalism. And I don't know that anyone has ever really established where each bank should operate on that spectrum.

There's a certain amount of latitude among those lines of demarcation. So, one, we don't have a perfect world where we clone bankers. And, two is where we have the absence of the capital discipline, which is the most powerful discipline out there—far more powerful than regulators.

Chairman St Germain. Then I go to Mr. Senterfitt.

On page 6, Mr. Senterfitt, you propose capital infusion by the FDIC into banks adversely affected by current economic situations, but still judged to be prudently managed.

Now, here is my two-prong question. What kind of projections or estimates do you have on capital infusion? And, second, what would the standards be for the FDIC to determine which would be the prudently managed institution?

Coupling that question, and that's from your statement and what we have just heard from Mr. Sexton, how do you determine which is the prudently managed institution? And if you can do that now, why couldn't you do it before so that you could have avoided having institutions getting in the state they are in now?

I am not trying to be quarrelsome here. I am trying to reconcile some of these statements.

Mr. Senterfitt. The process of assessing the management of a bank is indeed partially subjective. There are many objective standards that can be used, but that is why we have trained and qualified regulators that assess the quality of the management.

However, in an ideally working marketplace, the marketplace itself is going to assess the management of a bank, and as far as a quantification of any infusion by the FDIC, we have made no pro-

jections on what the amount of it would be. It is not an item of first priority among our recommendations.

Chairman **St Germain**. Well, let me ask you this. The regulators, we assume and hope, will assess management and make judgments on managements. That is what it says in the book that says what it is supposed to do, and that is what we assume is supposed to happen.

However, we have had numerous instances, that this committee has looked into, where we have found out that the regulators weren't assessing very well. Now we go to the marketplace, and I am reminded of an example where some of the biggest, most intelligent, prudent banks and bankers in the country got taken to the cleaners by a country pumpkin named Bill Patterson, a fellow who drank the beer out of his boots and wore Mickey Mouse hats and Nazi helmets. These big bankers—they bought all kinds of loans.

But very seriously, what happened to the argument or the contention that the marketplace—I mean, you had Chase Manhattan, Continental Illinois, and Seattle First—you had some really sharp banks and bankers, and the marketplace didn't help there.

So how do we reconcile that?

I mean, on the one hand—any of the three of you can address yourselves to that. Help us out.

Mr. Sexton, you seem to want to say something.

Mr. **Sexton**. Well, of course, I am familiar with my own problem list in Texas. I have at the present time, I suppose, 70 problem banks out of my 888, and looking at that list and looking at the banks that are involved, which I know all of them fairly personally, I know that the problems that exist in those banks with very rare exceptions relate to management problems, to lending practices, and to collection practices and perhaps sometimes insider abuse.

Well, we have done what needs to be done. We have removed the management. In some cases that management is also the control owner, which unfortunately has a telephone to talk to the current manager. We try to remove the negative influence, but we know why that bank is in trouble, and to forbear for capital against that institution which lost its capital because of insider abuse or because of just outright poor banking practice seems to be terribly inconsistent with the way we have operated in the past, that you make the mistakes and you pay for them, especially if those mistakes are ones that were made because you didn't follow Banking Principles 101.

Chairman **St Germain**. My time has expired, but I will have just one-half a second more with you, Mr. Sexton.

Is there a lag time? You say that at the present time you have 70 problem banks. Between the time you catch the poor loans, the nonrepayments, and the errors in judgment and the time you put it on the list and start classifying loans, et cetera; is there a long lag time? Is that why you have the 70 banks on your list; or is it because economic conditions having reversed themselves; or is it a combination of both?

Mr. **Sexton**. It is some combination. In my office there is not a very big bureaucratic chain to go through. So once a bank is identified, I have a phone memorandum on my desk saying it is a problem bank, and that includes everything that was a problem bank up through yesterday.

However, with the time we have had to spend on our problem banks continuing to examine those, there may be some undiagnosed cases among our better rated institutions.

Chairman ST GERMAIN. OK, what is your personnel complement? How many examiners do you have?

Mr. SEXTON. One hundred, sir.

Chairman ST GERMAIN. How many banks do you have?

Mr. SEXTON. 888.

Chairman ST GERMAIN. How often do you examine?

Mr. SEXTON. We are mandated by statute to examine every 18 months. I am afraid that I haven't met that because we have diverted our resources where we think we need them the worst rather than trying to——

Chairman ST GERMAIN. Because of the number of problem banks?

Mr. SEXTON. Yes, sir.

Chairman ST GERMAIN. Thank you.

Mr. DEAN. Mr. Chairman, may I address that?

Chairman ST GERMAIN. Sure.

Mr. DEAN. The problem we have in the agricultural situation is a little bit different than mismanagement or these high fliers or the Mickey Mouse deal. We are sitting out there with the situation where the thing just went to pieces real fast.

I have a customer. He sold part of his farm for $2,500 an acre. He was carrying a lot of debt. He is going to have trouble getting $750 if he can find a buyer for what he has left.

Now, this came about very fast, and I think—if I could relate it to people that work on salary. If 2 years from now your salary was cut by 75 percent, it would be awfully difficult for you to service your debt no matter how reasonable it was.

Now, maybe this is what we should look at in the future. Maybe salaries are going to go down. Maybe everybody in this room should think "my salary is going to go down by 75 percent."

Chairman ST GERMAIN. Mr. Dean, let me interrupt you, you know there was a French philosopher who once said "Tout comparaisons etre odeurs," which means every comparison has a little odor to it. I have cleaned that one up a bit.

Mr. DEAN. OK.

Chairman ST GERMAIN. Now, you don't compare a cut in salary with what has occurred in many instances where loans were made on land because everybody felt that that was a sleigh ride and that that sled was going real fast and was getting bigger and bigger and bigger because the price of land was getting higher and higher and higher.

Wasn't there a little speculation in land prices both by the borrower and the lender?

Mr. DEAN. Of course there was some speculation.

Chairman ST GERMAIN. Right. So that is why you can't compare the two.

Mr. DEAN. Well, I am not——

Chairman **St Germain**. Now, my time has expired, and I don't want to get into trouble with my colleagues; however, we are going to stick around and allow you to testify some more.

I am not saying that that is the case in every instance. In fact, I think we could have a lot of fun if we let you and Mr. Sexton come back to this as well.

But my time has expired. I can't do that.

Mr. Barnard.

Mr. **Barnard**. Thank you, Mr. Chairman.

Gentlemen, I had an opportunity to read the testimony that you offered today, and I must say that I felt that all three of you did an excellent job. You didn't come to the committee wringing your hands, but you really brought some very positive and I think well thought out suggestions and recommendations for us to consider as well as the regulators.

Mr. Senterfitt, I presume that much of the ABA's positions and recommendations could be carried out by the regulators without legislation.

Has this been discussed with the regulators, and what kind of reaction did you get from them?

Mr. **Senterfitt**. We have, Congressman Barnard, discussed that with the regulators, and the response that we received from them was one of willingness to consider the propositions, and we have now seen what they have come out with yesterday.

But, indeed, we do feel that much of what we have recommended by way of options for consideration can be achieved without the necessity for legislation.

Mr. **Barnard**. You are not real confident, though, that they are going to go as far as you would want to go, are you?

Mr. **Senterfitt**. We would hope that they will, Congressman.

Mr. **Barnard**. Would you be more comfortable if this was put into some general legislation, not too rigidly conformed, but to such a degree that they could work within certain guidelines?

Mr. **Senterfitt**. Well, certainly that would assure the implementation of it. One of the things that of course we have got to be cautious and be careful in assessing is the speed of implementation of what the regulators have suggested.

Mr. **Barnard**. In regards to legislation, Mr. Senterfitt, it is the recommendation that the net worth certificate program be expanded to include banks, failing banks.

That is correct?

Mr. **Senterfitt**. That was a low priority item in our task force's list of recommendations.

Mr. **Barnard**. But that was one that would have to be done by legislation?

Mr. **Senterfitt**. Yes.

Mr. **Barnard**. The rest of it would be done by regulation.

Well, did you consider the fact that the Garn-St Germain bill was limited as far as acquisition across State lines?

And I think much of this has got applicability to these farm banks and maybe some of these energy banks.

Have you considered whether or not the ABA would support the expansion of the Garn-St Germain to include banks?

Mr. **Senterfitt**. In the failing——

Mr. **Barnard**. Acquisition across State lines. Failed banks across State lines.

Mr. **Senterfitt**. Mr. Barnard, the issue of crossing State lines by banks is one that has not yet achieved universal approbation within the banking industry or indeed within this Congress.

Mr. **Barnard**. I hate to interrupt you, but not many issues have received that among the banking industry. [Laughter.]

Mr. **Senterfitt**. True. And we do not——

Mr. **Barnard**. Name one issue where it has.

Mr. **Senterfitt**. Oh, we could say we would like a better class of rates.

But we do not have a position on that at this time. We will be having—one of our policymaking groups will be meeting next week. We will consider a variety of these.

Mr. **Barnard**. You know, the time is sort of short as far as legislation—you know, we have a deadline to make on this net worth certificate thing.

I was going to ask Mr. Dean that as well. Have the Independent Bankers Association taken a position on how you would like to see us proceed as far as the net worth certificate program and our expanding the Garn-St Germain bill?

Mr. **Dean**. The net worth certificate is another option. We think the loan amortization would be a better system, would be less cost, would be better for lots of reasons.

We of course are opposed basically to expansion across State lines. I think, you know, if you want to have agreement in the banking industry, let there be interstate banking full-blown and there will be agreement because there won't be very many banks.

Mr. **Barnard**. You would support interstate banking full-blown?

Mr. **Dean**. No.

Mr. **Barnard**. Oh, I see.

Mr. Dean, we understand that—you know, we have been encouraging the regulators for many, many months now, with the help of our friends Mr. Bereuter and Mr. Roth and others. We have been trying to jawbone with the regulators to show forbearance on the farm banks.

But you know, the message that we get back is the banks are not forbearing on the farmers.

Mr. **Dean**. I think there are two answers to that question, if I may.

One, I think the fact that you have been jawboning has been very helpful. I think now we are beginning to see some action coming from the regulators.

And two, I think just the contrary as far as the banks are concerned. I think if they hadn't been forbearing they wouldn't be going broke.

Mr. **Barnard**. My time has expired, Mr. Chairman. I am just getting warmed up.

Chairman **St Germain**. Mr. Bereuter.

Mr. **Bereuter**. Thank you, Mr. Chairman.

Gentlemen, thank you for your excellent testimony.

Mr. Senterfitt and Mr. Dean, both of you made reference to the task force report that was issued in February. I commend you for that. As a matter of fact, I have introduced legislation I think covering all the points as well as a few others, and you had help from at least four of my constituents in that effort.

I am convinced that the kind of regulatory policies announced a couple of days ago before the other body are long, long overdue, and I don't think—I think that frankly they would not have happened if this subcommittee was not holding these hearings and if legislation was not being introduced.

I would like to get your comments on two subjects—loan amortization and secondary markets for long-term agricultural real estate loans if I have time.

In the area of the amortization, I am sure we are going to be asked, wouldn't the capital forbearance program announced by the regulators accomplish the same purpose? What would be your response to that question?

Mr. DEAN. I would say it would go a long way. We have just seen the announcement. We have seen no fleshing out on it. Whether it would go far enough I don't know at this time.

Mr. BEREUTER. What would it do to credibility of the banks, the banking industry or the banks, particularly given this capital forbearance leeway?

Mr. SENTERFITT. I don't think, Mr. Bereuter, that it would impair the credibility of the banks. The way the regulators have structured it, as I understand it—and I have not had an opportunity to study it carefully yet—it would be flagged. The items that were—the loans that were put into this special category are then flagged and it is apparent to the examiners and others as to where they are.

And the reduction in capital, you know, what is capital for? Part of what capital is for is to be used when there is a problem. Believe me, gentlemen, we have got a problem in some of these areas, and now is the time to use some of the capital. If you are going to say you have a problem and so you have to raise your capital—you know, it just goes counter to what capital was intended for in the first place.

Now, of course, I don't mean to be ridiculous and say you run it down to zero or minus, but capital is there to be used carefully and cautiously.

Mr. BEREUTER. I would ask the question, the opposite of the one I just asked, the administration testified before the Banking Committee in the other body that use of the amortization technique "may undermine the public's knowledge of, and confidence in, a bank's financial condition."

Would you please comment on that?

That is your first priority, I think. The ABA's first priority was identified as loan amortization.

Mr. SENTERFITT. Yes, sir.

There is no question but that there can be some possible distortion of the figures, the profits, but I think that is one that can be accommodated without any damage being done to the public.

Mr. BEREUTER. Mr. Sexton, as a bank supervisor and speaking for them generally, would you comment on that question?

Mr. SEXTON. I'm sorry; would you repeat it, sir?

Mr. BEREUTER. Yes; the question is, if, in fact, you extended the amortization period of time, 10 years, for example, or pick a period of years, would that undermine the public's confidence in the banking system?

Mr. SEXTON. Well, I think that any time that you can't look at a bank's statements, and those statements speak to you in the language of GAAP, which is the universal business language, in accounting language, I think there is always some skepticism about this statement, and yes, I think there is that potential.

Mr. BEREUTER. The question that has not had much exploration or technique at this point is the concept of developing a secondary market for longer term agricultural real estate loans, and I am wondering, in my final opportunity to ask questions in this round, what—well, first of all, if it is a viable operation, why don't we have it already in place. Second, what kind of statutory changes would be necessary?

I suggest, perhaps, as Mr. Dean is suggesting, some governmental leadership to start it, but what would any of you gentlemen like to say about this subject?

Mr. DEAN. Well, I think that it is viable and it can come about and will come about. I referred to it before. We have two big problems out there in secondary markets in agriculture now. One is the pessimism. It is just in shambles. Now we shouldn't let ourselves get overly pessimistic, but we do. I think this is a big problem out there. And the second problem you have out there now is the different actions that have been taken to forestall collections. In Iowa, long-term financing is very difficult to get, because of the moratorium on foreclosures, because of all this type of thing. This is a new thing. We would like to see a secondary market. We would like to see the insurance companies back in the business. And I think that it may take some sort of a partial Government guarantee to get them back in some of the FHA and Farmers Home.

In answer to your other question, if I can, about whether there would be a deterioration in confidence in the banks, our customers remember the premature closing of sound banks in the 1930's.

Mr. BEREUTER. Mr. Senterfitt, would you like to comment about statutory change?

Mr. SENTERFITT. Yes, sir. The development of secondary markets, particularly if we were considering buying longer term farm real estate loans, could be done through pooling with a Farmers Home Administration Guarantee Program in place, securitizing the loans. Perhaps eventually the program might be able to work by itself, but we think that initially, they would require the statutory changes in order to have the Farmers Home Administration guarantee the program.

Mr. BEREUTER. Thank you, Mr. Chairman. My time is up.

Chairman ST GERMAIN. Mr. Hubbard.

Mr. HUBBARD. Thank you, Mr Chairman, and I too express appreciation for this hearing and also to Mr. Senterfitt, Mr. Dean and Mr. Sexton for testifying before our subcommittee. I want to congratulate the ABA and the IBAA for your interest in agricultural credit and concern for our farmers.

When I first heard that the ABA and the IBAA had gone together and you have a Task Force on Agricultural Credit and the problems of the farmers, my first thought was, "Gosh, here is something I can use in my next newsletter," which I am preparing this week. But to be honest with you, I am afraid that the farmers in my district who would read this might think that I shared the same views as those set out by the ABA and the IBAA Task Force.

For example, in this white paper that you've prepared, you say that these steps are essential in helping agricultural borrowers in coping with the accumulation of problem farm debt. Then you mention the problems to assist commercial banks.

Regarding stabilization of bank capital, your task force has eight lengthy paragraphs. Regarding stabilization of agricultural borrowers, your task force just has one paragraph. In it you say, "For that purpose we recommend"—this is for the stabilization of agricultural borrowers. "We recommend further expansion of the Farmers Home Administration for agricultural loan guarantee programs and authority."

Is that all you can recommend to the farmers out there, as to how to stabilize their situation? I say that in a kind way. Mr. Senterfitt knows he is a friend of mine, and it is good to have the distinguished president of ABA with us. But if I were to read this to the farmers back home at a meeting Saturday at a courthouse, I am afraid they wouldn't be too happy with the recommendation.

Mr. SENTERFITT. The number of lines or words used in any particular part of it don't necessarily measure their importance. But the other measures that are suggested with respect to the banks' capital and the stabilization of farm real estate prices are things that will, in turn, of course, benefit the farmer himself, and that is a major objective of ours.

Mr. HUBBARD. Mr. Dean.

Mr. DEAN. Well, I think the loan amortization will do just that—I don't look at it as something for the bank. I look at is as something for the borrower. I think it will allow the bank to go farther with them. If you have got a bank that is just on the verge of getting a lot of rhubarb from the regulators, they are going to pull their skirts in just real tight. And if you've got a little margin there, the stronger the bank is or the more margin the bank has, the farther it is going to go with its borrowers. And most of these agricultural banks, they and the borrower are one and the same, and they don't have—they aren't making loans in foreign countries. They are not making shopping center loans. They are making loans on Main Street, and they are making loans to the farmers.

I think this would allow them to go farther. Now there are different degrees on how far you can go, and it is judgment call. I think you understand that.

Mr. HUBBARD. Please understand, under Gramm-Rudman and our current problems regarding trying to reduce this Federal deficit and the national debt of over $2 trillion, that expanding the Farmers Home Administration agricultural loan guarantee programs authority will be more difficult than before. If I were to tell that group of farmers Saturday, that we've got some good news, the ABA and the IBAA have a recommendation as to how to stabilize farm real estate values, the farmers would probably come to the edge of their seat waiting to see what might finally cause the cost of farmland to stop going down in western Kentucky.

Your first sentence says "We seek the development of an institutional secondary market for longer-term real estate loans originated by commercial banks."

If one of the farmers said, what do you mean by that, I'd probably have to call Mr. Senterfitt or Mr. Dean to help me out. What do you mean, "You seek the development of an institutional secondary market for longer term real estate loans"? Then you say, "A secondary market would provide access to additional funds and diversify the risks and returns from farm lending."

I don't think that would excite my farmers just to read those two sentences. What else could you tell me?

Mr. **Dean**. What I would tell the farmers is, what we hope to have is some place they can apply for a real estate loan on their farm and get it. To simplify it. And I think that could be done. The ABA and the IBAA have both been working in tandem on this. There is some question who is in the lead, but we are at least in tandem on this to obtain secondary financing. Right now there is no place to get it. The only place you can get financing for farm real estate now is if the seller sells his farm on a contract. But I would tell my customers—I have got some out there right now waiting for that. As soon as I can find them some place to get long-term financing, they are going to get, because that will take the pressure off, and hopefully, something will be able to be developed that can do this.

Mr. **Hubbard**. Mr. Sexton, would you like to comment on this, and I am not trying to be unkind to the ABA and the IBAA. I have got a lot of friends in both organizations, but——

Mr. **Dean**. We are working together.

Mr. **Hubbard** [continuing]. The Farm Bureau doesn't have the answers either, but I doubt that I would use these in my newsletters to show relief for the farmers. Borrowing more money, that's not the answer to that.

Mr. **Dean**. But to move the short-term debt to long term will help.

Mr. **Hubbard**. Mr. Sexton.

Mr. **Sexton**. Yes, thank you. And also, I would like to refer to a comment that Mr. Barnard made that forebearing with the banks doesn't necessarily, in his judgment, in all instances, equate to forebearing the farmers. I think it is perhaps reasonable to assume that those banks that are really solvent and have good management that truly believes they can make it over the long run, will approach these stimulai with a very measured, very cautious response. Those that are not and do not, perhaps, would be a bit more fearless and these measures would be more helpful to those bankers.

I think the only way that you'd really get the well-run operations back into the business is for the red light to go off. And one way is to create a secondary market for real estate loans. Additional FHA funding, or whatever, to really make that problem look better than it is presently.

Mr. **Hubbard**. Thank you, Mr. Chairman.

Chairman **St Germain**. The subcommittee will recess in order to cast a vote, and then we will resume in about 6 minutes.

[Recess.]

Chairman St Germain. Mr. Barnard, if you haven't cooled down too much, you can just continue where you left off.

Mr. Barnard. I think I have cooled off.

Mr. Sexton, we have been very interested in watching the events in Texas and California and some other places where State law has somewhat extended the hours of banks and savings and loans.

Would you comment on how this may have affected the problems in Texas or, in your opinion, has it affected any problems with banks? I guess this would be your primary area of expertise.

Mr. Sexton. Actually, my only area. The banks still have very traditional powers in Texas. None of the powers that have been granted these savings and loan institutions have flowed to banks.

Mr. Barnard. Well, I say, they have been exclusively to the savings and loan industry?

Mr. Sexton. Yes, sir. It's still very much traditional on the banking side. So that has not affected the banks. I think the inability to offer some additional products may be a telling factor in the future, and I think that needs to be given some fairly serious consideration. Some of the powers that the S&L's have, I am somewhat envious of, and I think properly administered, they could be good for bank profits, properly controlled. But banks do not, at present, have those capabilities.

Mr. Barnard. Mr. Chairman, I don't have any further questions, really.

Chairman St Germain. Let me ask you, in California, on direct investment powers, there is no cap whatsoever on S&L's; correct? How about in Texas? Is there a cap; do you know?

Mr. Sexton. I am sorry, Mr. Chairman, there is a cap, but I am not familiar with what it is.

Chairman St Germain. OK.

Mr. Barnard. Didn't the Federal Home Loan Bank Board, though, Mr. Chairman, put a 10-percent cap on those insured by FSLIC?

Chairman St Germain. No.

Mr. Barnard. They had a rule they issued last March to do that. I thought that went into effect.

Chairman St Germain. But that's just for the federally chartered. They can't do it on the State charters.

Mr. Barnard. I think they could do it, if they were insured by FSLIC. Anyway, that's a different subject.

Chairman St Germain. Mr. Sexton, on pages 10 and 11 of your statement, you referred to alternative bookkeeping techniques, in what one might consider a not too complimentary manner. So I would ask you if you would address or give us your position on the following three uses of the Federal Accounting Standard Board Statement 15: deferral of loan principal and collateral losses and extending the net worth certificate program to agricultural banks.

Mr. Sexton. I think that the program that the Federal regulators adopted makes a fair amount of sense. I think that gives some latitude, and yet, as I understand, their program remains generally within the bounds of GAAP, following FASB 15, which I read before I came here, but I am afraid I am not a lot more knowledgeable than I was about it. But as I understand it, the ability to set up a loan and amortize only the principal over some period of time, would enable you to keep that loan and stay within GAAP. I have no problem whatsoever with that.

I think it would be a good constructive move that would give some relief.

Chairman St Germain. How about the extension of the net worth program to agricultural banks?

Mr. Sexton. The net worth certificate program has the benefit of being a really good and collectible receivable, and so the solvency of the bank is enhanced. It does not—the net worth certificates that the FDIC has used, do not pay any interest. And so therefore, if you have a large operating loss and you are issuing net worth certificates to cover the loss, then there gets to be an earnings failure which, over the long term would be the most serious thing. But I would prefer net worth certificates to any sort of bookkeeping changes that are inconsistent with GAAP, but recognizing the deficiency that you are losing cash flow, that you are losing earnings, and you are not being given the wherewithal to rebuild capital.

Chairman St Germain. Would you refresh my memory, Mr. Senterfitt, with the ABA's position on the extension of net worth certifciates to agricultural banks?

Mr. Senterfitt. Mr. Chairman, I found on page 6 of the written statement, we say that that is a third option as a means to achieve capital stability. Net worth certificates similar to those—or income capital certificates currently used for thrifts, and we say that from a public policy viewpoint, banks that extend agricultural credit, the farm customers are not materially different from those lending institutions that provide mortgage credit to American home buyers. And both agriculture and housing are areas where, as a matter of national policy, banks are encouraged by Congress to lend. And thus, as a matter of equity between rural America with the majority of agricultural loans, and urban America with most housing loans, there is justification for amending title II of the Garn-St Germain Act to include insured agricultural banks.

We do add, however, Mr. Chairman, that the use of net worth certificates by thrift institutions hasn't been very well received by the accounting profession. We recognize that. And it has tended to cause some confusion, which we are aware of, and it is our recommendation that the net worth certificate program be instituted only as an adjunct to a more straightforward temporary capital stabilization program that is administered through the bank regulatory agencies. It has a primary emphasis either on capital forbearance or loan amortization.

Chairman St Germain. Mr. Sexton, getting back to you. I think your most desirable alternative, of the six that you mentioned, to bank foreclosure was to encourage private interests to acquire ailing banks and to properly recapitalize them; correct?

Did I also hear you subsequently say that not too much of that has occurred, even though you attempted to encourage it?

Mr. Sexton. Yes, sir. And the reason it does is that the very reason that the people on site do not want to put additional capital into the bank sometimes turns out to be the very reason that the new people coming in looking at the bank don't want to put the capital in, because of uncertainty on classified loans. It is terribly hard to quantify unclassified commercial loans. Terribly difficult, and when banks get into a situation where they are looking at having to take this course, there isn't usually a whole lot of time.

We had one bank in north Texas that closed last year, that had five different groups in it looking for 2 weeks, and when they came out, they merely shook their head and said, I don't know what's in there. I can't tell.

So the quantification of commercial classified credit is extremely, extremely difficult, and that is why we don't get private solutions in problem banks.

Chairman **St Germain**. They should have consulted the FDIC and the Comptroller. I mean, the job they did on Continental-Illinois was fantastic. See, they were able to quantify.

Mr. **Sexton**. Good idea. [Laughter.]

Chairman **St Germain**. Although some of the bigger banks of the country went in, they walked out and said no thanks. Thanks, but no thanks.

Mr. **Sexton**. Yes.

Chairman **St Germain**. Let me ask you this. Could Sears come into Texas and purchase a failing bank?

Mr. **Sexton**. No, sir. It's my understanding that that's not even permitted under the Bank Holding Company Act.

Chairman **St Germain**. I didn't know about Texas law.

Mr. **Sexton**. And Texas law merely says that any bank that operates in Texas must both offer commercial loans and take demand deposits. To attempt to have a State solution to this problem as well, so, no, that is not an option at the present time, either under State or presumably Federal law.

Chairman **St Germain**. Please let me know when you're ready. Mr. Vento.

Mr. **Vento**. Thank you.

Thank you, Mr. Chairman. I apologize for being late today. You know, the major bills that we have before us provide for sort of a quid pro quo with regards to providing, for instance, the stretchout or capital infusion to some extent.

At least, if it's done legislatively, I think it's likely that we will put in place new mandates which require arbitration or some means to reflect what the impact is, of agriculture especially and not so much with regards to energy.

But they are likely to have that tenor to them if what I'm hearing and seeing is correct.

Mr. Senterfitt, you are the president of the American Bankers Association. What would your response be to those types of mandates in terms of policies that would provide relief in this particular area?

Mr. **Senterfitt**. Congressman Vento, I am afraid that I didn't quite follow the quid pro quo part that you spoke of.

Mr. **Vento**. I think that legislative initiatives would be likely to have provisions that require new mandates in dealing with lenders, problem lenders, like agricultural lenders.

They were probably looking, in other words, these measures would look for an adjustment period or special consideration for those lenders.

In other words, you are asking not to have to charge off immediately, to stretch it out. I think that the provisions are helpful in that sense, but they are also looking to help the lender that is having problems during these times.

So they are looking for a quid pro quo, in that particular sense. Do you understand my question now?

Mr. SENTERFITT. Yes. The primary purpose, Mr. Vento, of the recommendations that the ABA has made, and ABA-IBAA joint task force, is to provide relief for the borrower and to stabilize the positions of those that have a viable future, because, just like some banks that have such severe problems that they are not going to survive, there are some farmers who may have such severe problems that they won't survive. And the objective of ours is to provide help to those farmers.

Mr. VENTO. And what you see in these provisions, are there any pitfalls with regards to that particular—what you've seen so far? Is there any limit beyond which we ought not tread?

Mr. SENTERFITT. Mr. Vento, any time the Congress starts mandating specifics in areas of lending, I think we get into a rather treacherous ground because it is such a flexible subject. And it's very difficult to establish uniform guidelines, universal guidelines.

Mr. VENTO. Do any of the other witnesses have any comments with regards to my inquiry? Mr. Dean? Mr. Sexton?

Mr. Sexton, what is the likelihood of these sort of stretchout provisions in terms of spreading the loan we are going to have on other financial institutions that probably today would be classified as healthy and having the ability to charge off this type of credit?

What type of impact is that going to have?

Isn't this particular accounting system or any modifications we make with regards to providing the ability to stretch out these losses or these not requiring the chargeoff going to put them in a different position?

What type of problems is that going to create?

Mr. SEXTON. Well, of course, any time a system of forbearance of any nature is devised, there are a lot—most banks would want to take advantage of it.

And of course, the bank that's well-capitalized wouldn't have any particular need to. They may well rather take the chargeoff than to have the item on their statement, which may become a signal to people who are reading the color reports that this is a bank with problems.

And it may well be that sound banks, well-capitalized banks, would shy away from that sort of thing.

Mr. VENTO. Well, they may but I mean, actually, wouldn't they be in a better position to leverage the amount of resources that they have by stretching out whatever the numbers of problem loans are over this period of time. And, therefore, have an ability to be in a more competitive posture immediately?

Mr. SEXTON. Yes, sir. It comes to the point that they need capital, either to cover losses or to cover growth, which often is the case.

Mr. VENTO. Well, I think the growth emphasis would be spectacular. Are there prohibitions in these legislative measures which would discriminate between those banks that have a significant portfolio of chargeoff that would result in default or in receding from the agricultural market versus those that would not have that circumstance?

Mr. SEXTON. I have not seen that, sir. And I presume if it were my bank and I needed capital for growth, I might well make that point that I have some losses, I think I would like to take advantage of FASB 15 or whatever you could do to get out of that.

Mr. VENTO. So the legislation doesn't discriminate against these banks. I think it would be extremely hard to do so.

Mr. Dean, or Mr. Senterfitt, do you have any——

Chairman ST GERMAIN. The time of the gentleman has expired.

Mr. VENTO. I am sorry, Mr. Chairman.

Chairman ST GERMAIN. Mr. Wortley.

Mr. WORTLEY. Thank you, Mr. Chairman.

Mr. Senterfitt, isn't the stabilization of agricultural debtors and their ability to cash-flow their debt critical to the success of any solution to the current difficulties?

And for that reason, shouldn't any solution be more borrower-oriented and not simply banker-oriented?

Mr. SENTERFITT. Mr. Wortley, we agree that the key to the problem is the borrower. But, the banks, in order to be able to service that borrower, are going to have to have some measures that permit them to continue through these difficult periods.

And indeed, as we have said repeatedly, the objective of these measures that we have recommended is to enable the bank to continue to serve their communities and the borrowers within that community.

Mr. WORTLEY. Do you think your proposal and the Independent Bankers is doing very much for the borrower himself, or are you just concerned about the banks?

Mr. SENTERFITT. There are certainly other measures that may need to be taken for the farmers in the long term. But the immediate problems that farmers are having right now—for example, coming up, spring planting. How are they going to get the funds?

Well, if the banks are not able, by reason of the strictures that are presently on them, to lend, then they are not going to be able to get the funds.

Mr. WORTLEY. One of the things I find very difficult to understand is this so-called creative type of accounting, and amortizing debts over a long period of time.

How would you like it if everybody who walked into your bank to borrow money came in with a creative balance sheet? You could not believe anybody.

How are we going to be able to believe the banks if we permit the banks to get involved in this sort of shennanigans?

Is there going to be any integrity in anybody's balance sheet these days if the banks themselves are phonying up their own balance sheets?

Mr. SENTERFITT. Mr. Congressman, we don't feel, of course, that phonying up any balance sheets is to be encouraged. Incidentally, we have had a few come into our bank that were. But we try to winnow those out.

Mr. WORTLEY. Do you blame it on the accountant or the client?

Mr. SENTERFITT. But the situation is that this is a rather limited objective, limited application, of loan loss amortizations. And it can be clear to anyone who wants to investigate, who wants to look and to know what's going on. And it's publicly done.

Mr. WORTLEY. But, next week, we will do it for small business loans. And maybe the month after that for Third World debt. We are always going to find an excuse. Once we break the barrier, once we let the camel's nose inside of the tent, I think we are getting in big trouble.

Mr. SENTERFITT. Congressman, I think that, sometimes, it's a matter of balancing the problems. You know, we have got farmers that need help. And we have got farm lenders that need help.

And sometimes it takes measures that we would not ordinarily like to do, but on a limited basis and for a limited time.

Mr. WORTLEY. I think we have a vote, Mr. Chairman.

Chairman ST GERMAIN. Gentlemen, I want to express appreciation for myself and our colleagues to you for your existence.

Let me ask you one quick question, because we do have a vote.

As you know, there has been a request that net worth certificates be extended as well as the hoops in Garn-St Germain.

Mr. Senterfitt, does the ABA agree with or have any objection to the extensive net worth certificates for the thrift industry?

Mr. SENTERFITT. The ABA has not taken a position in opposition to that.

Chairman ST GERMAIN. And on the hoops, as they exist for acquisitions over State lines?

Mr. SENTERFITT. Well, again, Mr. Chairman, as I indicated earlier, the interstate aspects of that create some problems of consensus within the banking industry.

Chairman ST GERMAIN. I mean, the way, as presently written, in the Garn-St Germain Act of 1982.

Mr. SENTERFITT. We have not taken a position in opposition as yet.

Chairman ST GERMAIN. Mr. Dean, on those two, net worth first, then the hoops?

Mr. DEAN. Well, on the net worth program, I think we would have the same with the ABA. On the position as hoops, we have some problem with any acquisition across State lines. We see some problems with the big banks over such-and-such a size which might be different than with the smaller banks. But we have some philosophical problems with that line of reasoning.

Chairman ST GERMAIN. Could you submit in writing a lengthier answer to that question for us, Mr. Dean?

Mr. DEAN. Yes, sir.

Chairman ST GERMAIN. Thank you.

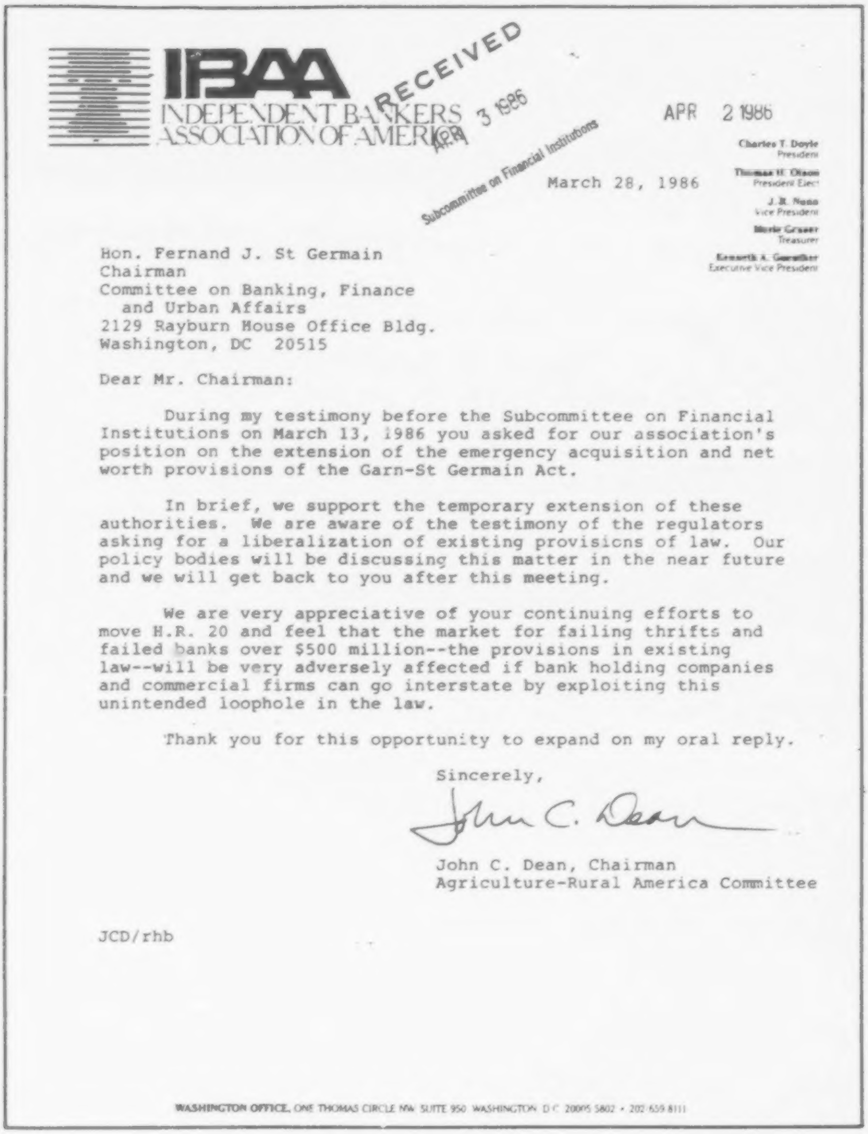
Mr. Sexton, on behalf of the Conference of Bank Supervisors, how would you respond?

Mr. SEXTON. We have no problem with the Net Worth Certificate Program properly administered, carefully administered. And as far as the acquisition across State lines, according to the Garn-St Germain hoops, once again, no problem.

The primary concern being that we maintain banking service for that community. And if it can't be done inside the State, which going through the hoops would determine, then provided some way, even if you do have to go outside the State.

So, as it's written in the Garn-St Germain Act right now, the conference would have no problem with that.

[In response to the request of Chairman St Germain, the following information was received from Mr. Dean:]



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APR 3 1986
Subcommittee on Financial Institutions

APR 2 1986

March 28, 1986

Hon. Fernand J. St Germain
Chairman
Committee on Banking, Finance
and Urban Affairs
2129 Rayburn House Office Bldg.
Washington, DC 20515

Dear Mr. Chairman:

During my testimony before the Subcommittee on Financial Institutions on March 13, 1986 you asked for our association's position on the extension of the emergency acquisition and net worth provisions of the Garn-St Germain Act.

In brief, we support the temporary extension of these authorities. We are aware of the testimony of the regulators asking for a liberalization of existing provisions of law. Our policy bodies will be discussing this matter in the near future and we will get back to you after this meeting.

We are very appreciative of your continuing efforts to move H.R. 20 and feel that the market for failing thrifts and failed banks over $500 million--the provisions in existing law--will be very adversely affected if bank holding companies and commercial firms can go interstate by exploiting this unintended loophole in the law.

Thank you for this opportunity to expand on my oral reply.

Sincerely,

John C. Dean

John C. Dean, Chairman
Agriculture-Rural America Committee

JCD/rhb

WASHINGTON OFFICE, ONE THOMAS CIRCLE NW SUITE 950 WASHINGTON D.C. 20005 5802 • 202 659 8111

Chairman **St Germain**. Thank you, gentlemen.

We want to thank you for your appearance and your assistance. If possible, and I hope you will cooperate, we would ask that you respond to questions which we will be submitting in writing on behalf of ourselves, as well as some of the other Members who couldn't be here today.

The subcommittee will stand in recess, until the call of the Chair.

[Whereupon, at 11:50 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

[Letters of invitation to witnesses of this day's hearing and a statement from the American Council of life insurance follow:]

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-NINTH CONGRESS
WASHINGTON, DC 20515

March 5, 1986

Mr. Donald T. Senterfitt, President
American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, D.C. 20036

Dear Mr. Senterfitt:

To assist this Subcommittee in the discharge of its responsibilities, you are requested to appear before the Subcommittee on Thursday, March 13, 1986, in Room 2128 Rayburn House Office Building, at 10:00 am, to provide testimony on the condition of depository institutions insured by the Federal Deposit Insurance Corporation. You are specifically asked to testify on the following matters of concern to the Subcommittee.

1. In terms as precise as your resources permit, what is the nature and magnitude of bank difficulties in:

   (a) agricultural lending,
   (b) energy lending, and
   (c) lending to less developed nations?

2. Are there any changes in existing law or regulation affecting bank capital requirements or accounting practices that should, in your judgment be implemented to ameliorate conditions in the farm, energy, and developing nation lending areas?

In accordance with Committee Rules, please deliver 175 copies of your prepared statement to Room B303 Rayburn House Office Building twenty-four hours in advance of your scheduled appearance. Your statement in its entirety will be included in the hearing record and, if delivered as requested, the statement will be made available to all Subcommittee Members in advance of the hearing. To provide all Subcommittee Members with sufficient time for questioning, the oral presentation of your prepared statement must be limited to ten minutes.

Sincerely,

Fernand J. St Germain
Chairman

FJStG:dDv

FERNAND J. ST GERMAIN, RHODE ISLAND, CHAIRMAN

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DOUG BEREUTER, NEBRASKA
STEVE BARTLETT, TEXAS
TOBY ROTH, WISCONSIN

March 5, 1986

Mr. John C. Dean
Chairman, Agriculture-Rural America Committee
Independent Bankers Association of America
1625 Massachusetts Avenue, N.W.
Washington, D.C. 20036

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FJStG:dDv

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STEVE BARTLETT, TEXAS
TOBY ROTH, WISCONSIN

March 5, 1986

Mr. James L. Sexton
President-Elect
Conference of State Bank Supervisors
1015 Eighteenth Street, N.W.
Washington, D.C. 20036

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Sincerely,

Fernand J. St Germain
Chairman

FJStG:dDv

STATEMENT OF THE
AMERICAN COUNCIL OF LIFE INSURANCE

Before the

HOUSE SUBCOMMITTEE

on the

inancial Institutions Supervision,
Regulation and Insurance

on

THE FINANCIAL CONDITION OF
DEPOSITORY INSTITUTIONS

March 13, 1986

Statement Made By:

Leslie G. Horsager
Vice President
Prudential Insurance
Company

Mr. Chairman and Members of the Subcommittee, I am Les Horsager, Vice President, the Prudential Insurance Company. The following testimony is submitted on behalf of the American Council of Life Insurance ("ACLI"). The ACLI is a trade association with a membership of 629 life insurance companies. In the aggregate these companies account for approximately 95 percent of the life insurance in force in the United States and hold 96 percent of the assets of insured pension plans.

Background

The life insurance industry is a provider of agricultural real estate financing of long standing. Many of the life insurance companies providing capital to agriculture today have been doing so for more than 100 years. Farm mortgages make a positive contribution to a well balanced investment portfolio. Insurance companies are familiar with the risks and rewards of farm lending.

The life insurance industry presently has just over $12 billion outstanding in mortgages secured by agricultural real estate, and, in addition, a significant amount is invested in agriculturally related businesses through bond and common stock holdings. It is our desire to continue that investment experience and to utilize our staff and infrastructure that has been carefully developed over the past century to provide private capital to agriculture on competitive terms. The life insurance companies have a successful record of perseverance and dependable service to agricultural finance through good times and bad. We continue to support our respective portfolios of farm assets in an atmosphere of unrestricted, healthy, and efficient competition. We have taken risks and enjoyed the rewards. We have also suffered losses. Investment in American agriculture by private enterprises has always been a healthy and much needed activity for the agricultural borrower.

The Current Situation

Our industry is active in nearly every major farm state. New mortgages continue to be made today even in the face of the current agricultural situation. This further serves to demonstrate the commitment of the industry to provide capital to agriculture, as well as indicate that qualified and credit-worthy borrowers are able to obtain financing.

Life insurance companies' agricultural loan portfolios are not without problems. At the end of 1984, there was approximately $1.2 billion or 10% of the loans by volume delinquent or in foreclosure. This compares with $240 million or 2% in 1980. In 1984, insurance companies acquired by foreclosure just over $250 million in agricultural property. Preliminary indications suggest that these numbers will be higher in 1985.

The continued decline in the prices of agricultural commodities and assets and the uncertainty in credit markets contribute to the decline and instability of the agricultural sector. It also discourages new investment, increases the cost, and reduces the volume of credit that is available. This deterioration of the markets, together with the financial stress on the agricultural sector, is expected to continue in the near term and will negatively impact:

- Federal, State and Local tax revenues
- Infrastructure of the food production system
- Services available in rural communities
- Businesses that merchandise, process or market agricultural products
- Agricultural credit sources

Widespread media coverage and public attention is being focused on the "Farm Credit Crisis." The Congress recently enacted the "Farm Credit System Restructuring and Regulatory Reform Act of 1985" (S. 1884) to reorganize and rescue the Federal Farm Credit System. While we believe strongly in preserving the financial integrity of the Farm Credit System, we are also concerned about the ability of other agricultural lenders to continue to participate in the industry.

The availability of several alternative sources of credit assures efficient and competitive markets for agricultural credit. A disadvantageous position imposed upon private lenders will discourage new sources of capital from entering the agricultural credit market, and encourage an exodus of those now active in providing credit. Any program designed to stabilize the agricultural credit industry over the long term must seek to insure continued private lender participation.

We hope and expect that if taxpayer assistance given the Farm Credit System ameliorates the pressures on Farm Credit System borrowers, equal benefit will be available to non-Farm Credit System borrowers. There is the potential here to inflict great inequities on non-Farm Credit System borrowers and creditors alike. Surely, the Congress does not intend to create a protected and privileged subclass of agricultural borrowers. In both the short term and in the longer term, this would be a grievous disservice to all concerned and indeed to the entire nation.

The Long Term

American agriculture should be a full participant in various American capital markets. We believe that this is clearly in the best interests of agriculture, of the taxpayers and of the nation in general. The alternative is that American agriculture increasingly becomes a ward of the Federal government as to its credit needs.

In the past, when the life insurance companies held a bigger share of the market, interest rate competition was a much more common feature in the industry. Typically, the rural banks worked with local insurance loan representatives. This relationship allowed farmers that obtained short term credit from the banks to have insurance company financing available for their long-term mortgage needs. The insurance companies competed with each other and the Federal Land Banks, thereby providing diversified sources of long-term credit for farmers at competitive commercial rates, while giving the small country banks an opportunity to provide total packaged financing needs for their rural customers.

This system worked well for many years, but as the Federal Land Banks made increasing use of their government agency access to the capital markets, our participation in this industry diminished. The life insurance companies currently hold $12 billion or 12% of the nation's agricultural real estate debt. Our participation, however, has been greatly outpaced by the Federal Land Bank. In 1968, life insurance companies held about $5.5 billion of farm real estate debt, or 22%. At the same time the Federal Land Banks held $5.6 billion, or about 22%. By 1984 total real estate debt amounted to $111 billion when the life insurance companies' investment in agricultural mortgage financing reached $12.4 billion or 12%, while the Federal Land Banks' position has grown to $48.4 billion, or 44% of the total.

During this time, private lenders, both the life insurance companies and the banks, operated at a disadvantage to the Farm Credit System. The Land Banks, for example, have been able to attract investors from the capital markets through a government agency affiliation which has provided them a lower cost of funds than other agricultural lenders.

We believe that competition and market discipline can be restored in the agricultural credit industry. To do so requires a healthy private sector lending capability. In our view, private lenders could compete, despite the pricing edge of government agencies, if there was adequate liquidity for their investment portfolios. While insurance companies may currently have a need for long-term farm mortgage investments, portfolio managers are reluctant to acquire significant amounts of these investments without assurances that they can be remarketed as their investment portfolios need rebalancing.

Liquidity has been provided in other long-term mortgage investments, such as the residential mortgages, through mortgage insurance and mortgage-backed securities. With an extensive secondary market for such mortgages, life insurance companies are once again major mortgage investors to the benefit of many home buyers.

Insurance companies believe the same concept should be developed in the agricultural mortgage business. If sufficient liquidity could be established through a secondary market for agricultural mortgages, our companies would be able to increase their participation as a major provider of long-term capital to agriculture, thereby increasing farmers' access to the nation's major capital markets. Just as homeowners in small communities throughout the nation have been served by the development of a secondary market for residential mortgages, farmers throughout the country would benefit from the development of a secondary agricultural mortgage market.

We believe American agriculture would benefit greatly from increased availability of private sector financing. The major advantages of private sector participation are several:

1. The private sector is enormous and highly diversified. Diversified sources of credit assure safety for farmers and investors alike.

2. The private sector is innovative and fiercely competitive. Such features have historically acted to the benefits of its customers.

3. The private sector could promote the development of a secondary market for agricultural mortgages thereby providing a

method to recycle capital from the major capital markets back into rural areas.

A basic feature of private sector financing is that its interest rates and terms are, at all times, reflective of the current capital markets. Some will say commercial agriculture cannot afford financing at commercial rates and terms. This is, in our experience, not the case. Realistic interest rates encourage realistic borrowing and provide an on-going discipline for all enterprises that use borrowed capital.

Given the tendencies of land prices to appreciate excessively when below-market financing is available, it can be asserted that in the long run agricultural assets will be more soundly priced and valued if interest rates are at commercial market levels. Viewing the last ten years, this would certainly have been a blessing to all concerned.

We believe American agriculture would benefit greatly with increased availability of private sector financing. Indeed, what agriculture needs is direct access to today's capital markets where interest rates have dropped significantly in recent months. Clearly, the American taxpayer would benefit in two ways. First, most private sector sources are subject to Federal income taxation on their investment income. Second, the possibilities of a repetition of this current demand for massive bailout would be materially reduced since sources of agricultural credit would be spread more diversely amongst investors.

For these reasons, we recommend that an equitable treatment of all agricultural lenders be established as a matter of on-going public policy. We also recommend that Congress seriously consider ways to enhance liquidity for agricultural mortgages through the development of a secondary market. We believe this will result in greatly increased private sector participation to the betterment of both lenders and borrowers.

FINANCIAL CONDITION OF THE BANK AND THRIFT INDUSTRIES

THURSDAY, MARCH 20, 1986

House of Representatives,
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance,
Committee on Banking, Finance and Urban Affairs,
Washington, DC.

The subcommittee met at 9:30 a.m., in room 2128 of the Rayburn House Office Building, Hon. Fernand J. St Germain (chairman of the subcommittee) presiding.

Present: Chairman St Germain, Representatives Barnard, Cooper, Gordon, Wylie, McKinney, Wortley, Dreier, Parris, Roukema, Bartlett, and Roth.

Chairman **St Germain**. During the last 2 weeks the administration has broken its long silence and has begun to talk about some of the problems and possible solutions facing the Nation's financial system.

I have long sought the opening of this dialog and I appreciate the appearance of the Under Secretary of the Treasury here this morning.

Unfortunately, the administration's efforts seem to have served only to thicken the fog surrounding depository institutions and their regulators.

The administration appears to be telling us to drop all protections, adopt the mentality of a high stakes gambler and hope that something remains at the end of the spree. The public interest demands that financial policy be made on more than a wish and a prayer.

The absolute eagerness to rip down the barriers that separate banking and commerce comes as a surprise even in an administration that has long talked about the glories of a jungle warfare in the marketplace. It is almost as if the policymakers were born anew, without benefit of any historical perspectives on our economic system.

When these same issues were hot and heavy and high on the wish list of the banking industry in the late 1960's, and early 1970's, the then Republican administration faced up to its responsibility, and it refused to go along with a wholesale emasculation of the separation of banking and commerce.

As this committee debated changes in the Bank Holding Company Act in 1969, President Nixon warned:

> Left unchecked, the trend toward the combining of banking and business could lead to the formation of a relatively small number of power centers dominating the American economy. This must not be permitted to happen; it would be bad for banking, bad for business, and bad for borrowers and consumers.
>
> The strength of our economic system is rooted in diversity and free competition; the strength of our banking system depends largely on its independence. Banking must not dominate commerce or be dominated by it.

But, for the Reagan administration such concepts are treated as if they never existed, as if they have no meaning. It is a dangerous situation, when powerful policymakers lack a fundamental understanding of the banking system and the commerce which depends on an independent and sound source of credit.

Reading the administration's statements, including its endorsement of nonbank banks, it is obvious that it ultimately plans not only to wipe out the Glass-Steagall Act but the Bank Holding Company Act as well.

In discussing the nonbank banks, the Treasury statement does not even mention the Bank Holding Company Act, but suggests that the administration might work out a set of "uniform rules" to govern the affiliations of a nonbank bank. The purpose of H.R. 20, which the administration now gives the back of its hand, is to bring nonbank bank holding companies under the "uniform rules" established by the Congress in the Bank Holding Company Act.

If the Bank Holding Company Act does not apply to a Sears, Roebuck-Dean Witter Securities-Allstate Insurance and Mutual Fund-Greenwood Trust and Sears Savings Holding Co., what justification is there for it to apply to a Citibank or any bank holding company? The game is over, if we don't bring nonbank banks and their holding companies under the law, and this administration knows that full well. It can't hide its intents by renaming the institutions "consumer" banks.

The nonbank bank game is being played by the well-dressed members of the board of multibillion dollar corporations like Sears, Roebuck and not by "consumers." I repeat, not by "consumers." So let's at least talk reality here this morning and not borrow words like "consumers" which seldom find their way into administration rhetoric.

Federal Reserve Chairman Paul Volcker was before us on February 19, and he listed the closing of the nonbank bank loophole as his No. 1 legislative priority. Chairman Volcker has consistently worked to maintain a sound banking system, and it is a national disgrace that we have not given him the help that he has asked to control nonbank banks.

It is sad that the administration has adopted the positions of the banking and retail corporations rather than the expert opinion of one of our most respected banking regulators, actually, one of the most respected this Nation has ever had at the helm. At a time when we need stability in the banking community and the confidence of the public, it is regrettable that the administration cannot support the Federal Reserve's regulatory efforts.

Mr. Wylie would like to be recognized at this point.

Mr. **Wylie**. Thank you very much, Mr. Chairman. I, too, would like to extend a warm welcome to the distinguished——

[Laughter.]

Chairman **St Germain**. You do have a way with words.

Mr. WYLIE. I thought so too. I thought we ought to inject a little levity and gaiety into the proceeding here. [Laughter.]

I would like to welcome the distinguished Secretary and compliment him on his excellent written statement. I think your comments, Secretary Gould, on the condition of our financial institutions and the problems faced by the insuring agencies demonstrate that you are knowledgeable. They are informative, and I was particularly interested in your recommendations for reform, not necessarily that I agree with all of them, but in any event, you do have some suggestions for a way of moving foward, it seems to me.

I think it is fair to say that changing market conditions, new technologies intensifying competition and the exploitation of loopholes are driving a deregulation that is happening much more rapidly than anyone could have anticipated a few years ago.

All these developments may be laid at the feet of the unsatisfactory state of existing law. They have created a continuing large volume of complex litigation and more can be expected. Indeed, almost every important banking policy is now the subject of judicial review. The banking system, I think, is too important to leave its evolution to this haphazard arrangement.

Now I think it is particularly timely for us to have the Secretary here this morning to present the administration's views on these important issues. I agree with the Secretary's statement that weak institutions translate into weak deposit insurance funds, and that the most effective way to insure a strong system is to allow the banks and thrifts to compete and make a profit.

As the Secretary suggest, one of the first orders of business to be addressed is the Garn-St Germain emergency acquisition authority that expires on April 15. I have asked my staff to explore various options, and I find myself in general agreement with your recommendations, Mr. Gould, which seem to be reasonable on this score.

I would hope that you, Chairman St Germain, I and other members of this subcommittee can work together to produce a piece of consensus legislation that we can move in a timely fashion on this subject.

Mr. Chairman, I look forward to hearing from Secretary Gould and would like to thank you very much for holding these timely hearings.

Chairman ST GERMAIN. Thank you, Mr. Wylie.

Mr. Barnard.

Mr. BARNARD. Thank you, Mr. Chairman. I would also like to extend my welcome to Mr. Gould this morning for being with us. I would join with the chairman of our committee in one statement, and that is for a long time we have been looking to the administration and the Treasury for some guidance as to how we would come out of the situation that we are in and how we could proceed on with a more moderate financial structure.

I do disagree with him, though, in this matter of the thickness of the fog. I think the thickness of the fog comes about because we have been for too long with our heads in the sand. We have not recognized what has been going on in the financial marketplace. Yes, it is very good to be an advocate of the separation of banking and commerce, but in today's reality, that is not real. Banking and commerce is interrelated in every way, in thrifts, in banks, in securities, and on, and on, and on.

This has come about because of technology advancements, consumers demands—and I emphasize consumer demands—and certainly, the actions of the courts.

What we have today is confusing, complex and unfair. And the time has come for us to address this problem in a realistic 1986 way. We can no longer be guided by laws that were passed in the 1930's—the Glass-Steagall Act, the McFadden-Douglas Act. Even the Bank Holding Company Act needs to be changed. Chairman Volcker wants to change the Bank Holding Company Act. And in the 1984 Garn bill, he was very much insistent that the Garn bill included an expansion of 4(c)(8) to include financially related activities.

So Mr. Chairman, I do welcome this hearing this morning, and I think this is the first step toward some very, very needful hearings and actions, in order for us to catch step with what is going on in the financial marketplace. And I thank you very much for letting me make this statement.

Chairman **St Germain**. Thank you. Mr. Dreier.

Mr. **Dreier**. Thank you very much, Mr. Chairman. I would like to make it at least a 3-to-1 majority in support of a warm welcome for Secretary Gould. [Laughter.]

And I would simply like to tell him that I laud his efforts in support of providing safe and sound consumer choices for the deposit of their funds.

Thank you very much, Mr. Chairman.

Chairman **St Germain**. Mr. Gould, we will put your entire statement in the record. You may proceed.

STATEMENT OF HON. GEORGE D. GOULD, UNDER SECRETARY FOR FINANCE, DEPARTMENT OF THE TREASURY

Mr. **Gould**. I compliment the chairman for calling these hearings on the condition of depository institutions, and I greatly appreciate this opportunity to appear before your subcommittee.

We share your keen interest in this subject and have been working on many aspects of it—involving different types of depositories, various lending markets and both short- and long-range implications for consumers, small savers, borrowers and the health of the depositories themselves.

I recognize that all of us may not see eye to eye on how to serve the American public best on each and every one of these issues, but I honestly believe we share much ground on a number of matters particularly relating to the thrift industry. I am hopeful we can work together on these subjects for the common good.

I also recognize, Mr. Chairman, that you would like me to limit my remarks to 15 minutes. As a result, I will skip a part of my written material and try to concentrate on major elements for you.

My statement addresses four topics. First, as the chairman requested, we have examined closely the problems of the thrifts and FSLIC. I would like today to outline our analysis and the elements of a proposal we are developing with the Bank Board and the Federal home loan banks. The industry groups have expressed general agreement with key aspects of this approach.

Second, I will discuss briefly the problems of agricultural banks and the recent joint statement of the three banking agencies on regulatory policies toward agricultural lenders.

Third, my written statement touches on some operational deposit insurance issues, related specifically to how we might increase the fairness and effectiveness of the FDIC's operations.

I do not intend to read that section this morning, but would be pleased to answer any questions about it.

Fourth, I would like to say a few words about the general prospects of the Nation's insured depository institutions and their ability to serve consumers, savers, businesses and themselves. Neither Congress nor the administration can afford a total preoccupation with immediate issues to the detriment of the not-too-long-term health of American banking organizations. Otherwise, our Nation's banks will face economic obsolescence, consumers and other customers will be served less well, and our system of banking regulation and supervision will fall behind the marketplace. And thus the deposit insurance funds will be at greater risk.

I am pleased to add that we have been working closely with our colleagues in the regulatory agencies on these issues. I understand they will address some of your more specific questions on the conditions of banks in various lending areas in their statements later in these hearings.

The chairman and many members of this subcommittee have stressed that the problems of the thrifts and the FSLIC comprise the most important deposit insurance issue. The administration assigns this subject an equal priority.

Indeed, given the decline in interest rates and the current substantial profits of many thrifts, this is a propitious time to make headway. We have worked closely with Chairman Gray to develop a sound proposal. While we need to resolve some significant details in coming weeks, I would like to report to you today on estimates of the size of the problem; the limits of FSLIC's current resources; and our three-part approach toward solving these problems.

Anyone's estimate of the cost of resolving problem thrift cases entails considerable uncertainty. The hesitation is partially attributable to important variables, such as interest rates and regional real estate conditions that may affect significantly the health of many institutions over time.

My written statement discusses the data and methods of analysis at some length. I will not bother to read that at this time.

But in summary, the recently published reports estimate a range of 200 to 460 problem cases with assets of $60 to $120 billion and resolution costs between 5 and 20 percent. They suggest that the total cost of assistance would range from $5 to $25 billion.

Last week before this subcommittee, Chairman Gray appraised the resolution costs at approximately $16 billion.

FSLIC need not incur all these costs immediately. Indeed, as an organizational matter, FSLIC may need to prolong its assistance effort. But deferring the resolution of problem institutions does entail risks. Therefore, we believe it is in FSLIC's, the industry's and the public's interest to step up both the resolution and supervision effort considerably.

FSLIC must cope both with financial and organizational constraints. The Federal Home Loan Bank Board has just reported FSLIC's total reserves at the end of 1985 totaled about $6 billion. We estimate that FSLIC's 1986 income before expenses should total about $2.6 billion, of which a little over $1 billion comes from the special assessment.

The Federal Home Loan Bank Board and FSLIC are expanding staff considerably, so as to handle better their supervisory and problem case resolution responsibilities. The Federal Home Loan Bank Board's budget includes 628 staff positions in 1985. The administration is seeking to increase this number to 862 in 1986 and 965 in 1987.

Furthermore, during 1985, the Federal Home Loan Bank Board shifted its examination force, about 750 people, to the 12 Federal home loan banks, which have mapped out an ambitious growth program for this important function. The establishment of the so-called 406 Corporation, now properly focused in its authority, may also help FSLIC to dispose of assets more expeditiously and profitably.

Despite the substantial efforts to expand organizationally, there are limits on FSLIC's capability to increase its case resolution efforts.

We recommend a three-pronged strategy to help the thrift industry and FSLIC. First, we need to strengthen the thrift industry as a whole. We must set targets and create incentives for the industry to increase its capital. Concurrently, we need to halt the growth of the problems through increased supervision.

Second, we must enhance FSLIC's resources, so that it can handle a greater number of insolvent institutions. FSLIC needs additional funds, if we wish to make more progress more quickly. To avoid placing too great a burden on the industry all at once, the funds for FSLIC should be a balance of industry assessments and prudent investment by or borrowing from the Federal home loan banks.

In effect, FSLIC could draw against its future stream of assessment and investment income and some of the Federal home loan banks' future profits, to avoid encumbering the industry with a full recapitalization effort immediately.

Third, we can lower the resolution costs that FSLIC and the industry must pay, if we manage to increase the demand from acquirers and enhance the franchise value of ailing thrifts. New entrants can also increase the industry's overall capital base and long-term health.

We acknowledge that the thrift problem will not be solved overnight, but interest rates are down and many in the industry are enjoying exceptional profits. This is the time to move forward vigorously with the elements of this three-part program.

First, we need to increase the capital base of the industry. This increase can be spurred in part by Federal Home Loan Bank Board regulations, currently under consideration, to increase minimum net worth requirements over time.

Second, the Federal Home Loan Bank Board should continue its efforts to phase out regulatory accounting. We would, however, not oppose a limited extension of the net worth certificate program, if it continues to be restricted to the thrifts.

Third, the Federal Home Loan Bank Board and the Federal home loan banks should continue to enhance their efforts to improve supervision. The additional latitude in business activities that thrifts now enjoy must be combined with careful monitoring, especially for thrifts without much of their own equity capital at stake.

Fourth, we need to reconcile States' authority to grant new thrift powers with FSLIC's financial responsibility to pay up, if the thrifts fail. We believe some proposals go too far in the direction of prohibiting State-authorized activities. Public officials and private business people from some of your States have made this point to us too. We believe a better balance could be achieved by the retention of additional State powers only in holding company subsidiaries, if the Bank Board determines that this extra protection of FSLIC is necessary.

The State institutions could still proceed in new business areas, but they would need to do so with their own capital through a holding company subsidiary instead of with FSLIC-insured funds. This capital could include profits "upstreamed" from the thrift subsidiary, if they are not necessary to meet Bank Board capital standards.

There have been numerous suggestions about ways to raise more capital for FSLIC. The proposals include a special 1 percent recapitalization, an increase in the special assessment and a merger with the FDIC. We would prefer to avoid these measures for now, if possible. Instead, we believe the current contributions to FSLIC can be combined with carefully evaluated investments and borrowing from the Federal home loan banks, spaced out over time.

Some members of the industry are seeking to end the special assessment. While we agree that the assessment must remain special and impermanent, now is not the right time to scale it back.

To date, the assistance of the 12 Federal home loan banks has remained relatively minor. The Federal home loan banks are owned by the industry, but lined to the Federal Home Loan Bank Board in myriad ways. They are well-capitalized institutions with strong assets and earnings.

The Garn-St Germain Act authorized the Federal Home Loan Bank Board to direct the Federal home loan banks to lend to FSLIC. There are possible variations on this loan approach, perhaps involving deposits, subordinated debt and preferred stock. The preferred stock option is preferable, because it both increases FSLIC's accounting reserves and provides a budget offset for FSLIC case resolution outlays. However, authorizing legislation is probably necessary for investments in FSLIC. Furthermore, any financing package must be attentive to the Federal home loan bank's position in the debt markets and to the operating needs of the thrift industry.

I met recently with the 12 presidents of the Federal home loan banks to discuss their ideas with them. They gave me some important insights. Most important, the Federal home loan bank presidents are anxious to work with the Congress, the Bank Board and the Treasury to fashion additional Federal home loan bank support for FSLIC. We, in turn, are seeking to arrange a Federal home loan bank financing package that taps the Bank's skills and resources, responsibly.

We recognize that interindustry thrift acquisitions are a touchy subject for many parties, especially some segments of the industry that wish to avoid competition. But the acquisition logic is straightforward and undeniable. The problem institutions have created real costs that FSLIC and the industry must bear.

Neither the Congress nor the administration is in the mood to accept a budget-busting bailout, although we can help in other nonexpenditure ways. So if the thrift industry wants to cut its costs, it should not close out potential acquirers.

At a minimum, we must extend the emergency acquisition provisions of the Garn-St Germain Act, which expire on April 15. We also urge the Congress and the regulators to look twice before determining the certain classes of bidders, such as firms with security affiliates, cannot be accommodated in some fashion. Perhaps certain restrictions on affiliate transactions and conflicts of interests may suffice.

The regulators can also play an important role. My statement discusses some of the actions they can take and are taking today.

Finally, I should explain how our support for consumer banks is completely consistent with, and indeed reinforces, our effort to expand the acquisition market for ailing thrifts.

As the Treasury has stated in the past, we would consider closing the nonbank bank loophole in the context of comprehensive legislation. That legislation would have to include provisions to reduce the statutory and regulatory barriers that currently exist for potential thrift acquirers. That is the only way that we can really channel potential consumer bank entrants toward troubled thrifts, so as to reduce FSLIC's costs, bring new capital into the thrift industry, and continue to offer more competitive and better services for working people of modest means.

Those who argue that they want to encourage thrift acquisitions by closing down consumer banks alone are pursuing quite a different agenda. They do not want the competition from new entrants, and to this end, they are willing to cut off valuable new providers of services to the middle class. Indeed, legislation pending in the House reflects this approach. Not only would the bill halt the consumer bank movement, but it would severely discourage thrift acquisitions and tie the hands of thrift owners who want to market more services to small savers.

In summary, the time is ripe to make major advances on the problems of the thrifts and FSLIC. Public confidence in FSLIC and the thrifts require all of us to come together to take action now.

Mr. Chairman, you have been alert to these issues. You have asked us for a plan and we are presenting one, together with the Bank Board, the Federal home loan banks, and substantial industry support.

We know you are ready and willing to act on the right program. We would like to work closely with you and the members of this subcommittee, as we refine the details over the next few weeks.

Then together we can take expeditious action to strengthen FSLIC, this important industry and the faith of depositors throughout the Nation.

American agriculture is undergoing a major transition. This transition is critical, if we expect to compete effectively for foreign markets. The new farm bill authorizes expenditures of at least $50 billion over the next few years to ease the way. The lower dollar and lower interest rates will help too. Nevertheless, current USDA economic projections anticipate several more years of significant pressure on many farmers, rural communities, and agricultural lending institutions.

We believe, therefore, that it is critical for the bank regulators to continue to work constructively with farm banks on their problems and the concerns of their borrowers. The regulators' joint statement of March 11, which I have attached to this testimony, is exactly the type of effort we need.

I am going to skip through, if I may, Mr. Chairman, reading the rest of my testimony in that section, as I keep my eye on my watch and your time restraints.

I would particularly, however, in the questioning like to answer any inquiries people have as to the regulators' current actions and the applications of existing tools that they have, such as FASB 15.

But I would be remiss if I stopped with these immediate problems. It is also vitally important that we ensure banks' ability to operate in a fast changing marketplace both to promote their safety and soundness and to supply more and better services to consumers and other customers.

Too often in the past, the debate on change in the banking world has focused on the need to expand their powers vis-a-vis others without much discussion of why this expansion is necessary.

The debate broke down into an unappealing exchange over who gets what, particularly in relation to the powerful security firms.

We believe that we have a duty to explain to Congress why expanded banking services will result in a more secure banking system that can be responsive to the needs of consumers, State and local governments, and America's various businesses.

If Congress will not permit banks to evolve with their market, we ultimately will create a much bigger deposit insurance problem than any I have discussed today.

My written statement covers these topics at length. We would like to spur greater debate on consideration of this subject, and in the interest of time, however, I will leave the issue to the question-and-answer period.

In conclusion, I would again like to stress my desire to work closely with the subcommittee to address some pressing problems we all recognize.

We acknowledge that, in a short legislative year, with many issues competing for the Congress' attention, any other approach is likely to result in stalemate.

I believe the difficulties of the thrifts and FSLIC are especially worthy of joint action. We can make a start alone, but we can accomplish much more with your help.

I have appreciated the invitation to present our views today, and I respectfully look forward to many more exchanges in the future.

Mr. Chairman, I would be pleased to answer any questions the committee may have.

[The prepared statement of Mr. Gould follows:]

FOR RELEASE UPON DELIVERY
Expected at 9:30 a.m.
March 20, 1986

TESTIMONY OF THE HONORABLE
GEORGE D. GOULD
UNDER SECRETARY FOR FINANCE
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
THURSDAY, MARCH 20, 1986

Mr. Chairman and Members of the Distinguished Subcommittee:

I compliment the Chairman for calling these hearings on the condition of depository institutions, and I greatly appreciate this opportunity to appear before your Subcommittee.

We share your keen interest in this subject and have been working on many aspects of it -- involving different types of depositories, various lending markets, and both short- and long-range implications for consumers, small savers, borrowers, and the health of the depositories themselves.

I recognize that all of us may not see eye-to-eye on how to serve the American public best on each and every one of these issues. But I honestly believe we share much ground on a number of matters, particularly relating to the thrift industry. I am hopeful we can work together on these subjects for the common good.

My statement addresses four topics. First, as the Chairman requested, we have examined closely the problems of the thrifts and FSLIC. I would like today to outline our analysis and the elements of a proposal we are developing with the Bank Board and the Federal Home Loan Banks. The industry groups have expressed general agreement with key aspects of this approach.

Second, I will discuss briefly the problems of agricultural banks and the recent joint statement of the three banking agencies on regulatory policies toward agricultural lenders.

Third, my statement touches on some operational deposit insurance issues -- related specifically to how we might increase the fairness and effectiveness of the FDIC's operations.

Fourth, I would like to say a few words about the general prospects of the nation's insured depository institutions and their ability to serve consumers, savers, businesses, and themselves. Neither Congress nor the Administration can afford a total preoccupation with immediate issues to the detriment of the not-too-long-term health of American banking organizations. Otherwise, our nation's banks will face economic obsolescence, consumers and other customers will be served less well, our system of banking regulation and supervision will fall behind the marketplace, and the deposit insurance funds will be at greater risk.

I am pleased to add that we have been working closely with our colleagues in the regulatory agencies on these issues. I understand they will address some of your more specific questions on the condition of banks in various lending areas in their statements later in these hearings.

I. The Problems of the Thrifts and FSLIC

The Chairman and many members of this Subcommittee have stressed that the problems of the thrifts and FSLIC comprise the most important deposit insurance issue. The Administration assigns this subject an equal priority.

Indeed, given the decline in interest rates and the current substantial profits of many thrifts, this is a propitious time to make headway. We have worked closely with Chairman Gray to develop a sound proposal. While we need to resolve some significant details in coming weeks, I would like to report to you today on: (1) estimates of the size of the problem; (2) the limits of FSLIC's current resources; and (3) our three-part approach toward solving these problems.

A. Problem Size

Anyone's estimate of the cost of resolving problem thrift cases entails considerable uncertainty. The hesitation is partially attributable to important variables -- such as interest rates and regional real estate conditions -- that may affect significantly the health of many institutions over time. In addition, Congress and the FHLBB have the option of permitting many institutions that are liquid but technically insolvent to remain open.

The most common method of calculating the set of problem institutions is through net worth analysis, which is based on an examination of a thrift's capital. There are various ways to measure a thrift's capital base, but the two most prevalent approaches rely on GAAP (Generally Accepted Accounting Principles) and RAP (Regulatory Accounting Principles, which include special adjustments that increase capital).

As of September 30, 1985, there were 461 GAAP-insolvent thrifts insured by FSLIC. These thrifts had assets with a book value of $114 billion; 236 of them were unprofitable in the third quarter.

As of the same date, there were 105 RAP-insolvent thrifts insured by FSLIC. Their assets totaled $22 billion, and only four had net income in the third quarter.

The table attached to this statement gives a fuller exposition of the possible problem set. In particular, it supplies (1) statistics for a narrower net worth measure, tangible net worth (TAP), which excludes goodwill and other intangible assets, and (2) data on thrifts with net worth between 0 and 3 percent of assets.

One can refine the analysis of thrifts' financial soundness by examining factors such as quality of profits, duration match between assets and liabilities, and portfolio composition. Indeed, FSLIC employs this detail to select its case load, which currently consists of about 90 thrifts with assets of approximately $40 billion. The FHLBB's Office of Examination and Supervision also uses the financial detail from "call reports" to develop a "next tier" list of significant supervisory cases.

Moving from these statistics on troubled thrifts to identification of a number that will require FSLIC's assistance involves considerable supposition and judgment. The Bank Board, the GAO, and various academicians have published a number of analyses of potential demands on FSLIC. Under present conditions, their estimates of the number of thrifts requiring at least some direct assistance range between 200 and 460 institutions. Their estimates of the book value of assets involved runs from $60 to $120 billion.

Any estimate of resolution costs is equally indefinite. A few years ago, when "interest rate spread" cases dominated FSLIC's case load, resolution costs were about five percent or less of an institution's assets. But the surge in cases involving poor quality assets has increased that percentage considerably. Estimated resolution costs as a percentage of assets in 1985 and 1984 were about 15 percent. If asset quality cases diminish in size and number, this percentage could fall considerably.

In sum, the recently published reports estimate a range of 200-460 problem thrifts, with assets of \$60-\$120 billion and resolution costs between 5-20 percent. They suggest that the total cost of assistance would range from about \$5-\$25 billion. Last week, before this Subcommittee, Chairman Gray appraised the resolution costs at approximately \$16 billion.

FSLIC need not incur all these costs immediately. Indeed, as an organizational matter, FSLIC may need to prolong its assistance effort. Deferring the resolution of problem institutions does, however, entail risk. An increase in interest rates will cause additional losses. Without appropriate supervision, thrifts in a precarious position may take actions that increase risk and possibly ultimate loss. Even with careful supervision, FSLIC may end up assuming the operating losses from thrifts that continue to lose money. Therefore, we believe it is in FSLIC's, the industry's and the public's interest to step up both the resolution and supervision effort considerably.

B. FSLIC's Resources

FSLIC must cope both with financial and organizational constraints. The FHLBB has just reported that FSLIC's total reserves (assets minus liabilities) at the end of 1985 totaled about \$6 billion. If FSLIC's "allowances for losses" for various assets are low, as some commentators have asserted, then its total reserves would be commensurately lower.

FSLIC's annual income comes from its regular deposit insurance assessments (one-twelfth of one percent of deposits), investment income, and a special assessment (at most, one-eighth of one percent annually). We estimate that FSLIC's 1986 income before expenses should total about \$2.6 billion, of which a little over \$1 billion is from the special assessment.

The FHLBB and FSLIC are expanding staff considerably so as to handle better their supervisory and problem case resolution responsibilities. The FHLBB's budget included 628 staff positions ("full time equivalents") in 1985; the Administration is seeking to increase this number to 862 in 1986 and 965 in 1987. The break out for FSLIC alone is 159 in 1985, 298 in 1986, and 372 in 1987.

Furthermore, during 1985 the FHLBB shifted its examination force (about 750 people) to the 12 FHLBanks, which have mapped out an ambitious growth program for this important function. The establishment of the so-called 406 Corporation, now properly focused in authority, may also help FSLIC to dispose of assets more expeditiously and profitably.

Despite these substantial efforts to expand organizationally, there are limits on FSLIC's capability to increase its case resolution efforts. In setting future targets, we need to be aware of past results: FSLIC resolved 33 cases (involving thrifts with $6.5 billion in assets) in 1985; 27 ($6 billion in assets) in 1984; 49 ($16 billion in assets) in 1983; and 74 ($28 billion in assets) in 1982. The larger numbers in earlier years reflect the relatively easier task (and lower cost) of resolving "negative interest rate" spread cases.

C. A Suggested Approach: A Three-Pronged Strategy

We recommend a three-pronged strategy to help the thrift industry and FSLIC.

First, we need to strengthen the thrift industry as a whole. We must set targets and create incentives for the industry to increase its capital. Concurrently, we need to halt the growth of the problem through improved supervision.

Second, we must enhance FSLIC's resources so that it can handle a greater number of insolvent institutions. FSLIC needs additional funds if we wish to make more progress, more quickly. To avoid placing too great a burden on the industry at once, the funds for FSLIC should be a balance of industry assessments and prudent investment by or borrowing from the Federal Home Loan Banks. In effect, FSLIC could draw against its future stream of assessment and investment income, and some of the FHLBanks' future profits, to avoid encumbering the industry with a full recapitalization effort immediately.

Third, we can lower the resolution costs that FSLIC and the industry must pay if we manage to increase the demand from acquirers and enhance the franchise value of ailing thrifts. New entrants can also increase the industry's overall capital base and long-term health.

We acknowledge that the thrift problem will not be solved overnight. But interest rates are down and many in the industry are enjoying exceptional profits. This is the time to move forward vigorously with the elements of this three-part program.

1. Strengthening the Thrift Industry

First, we need to increase the capital base of the industry. This increase can be spurred in part by FHLBB regulations, currently under consideration, to increase minimum net worth requirements over time. (Risk-based capital requirements offer a variation on this theme.)

To comply, some mutual thrifts may need to switch to stock form, because it will prove difficult to build the necessary capital by relying solely on retained earnings. The FHLBB is examining ways to help by easing the conversion process.

Furthermore, it is appropriate to consider incentives to raise capital as well as mandates to do so; higher capital levels could be linked to increased business freedom.

Second, the FHLBB should continue its effort to phase out regulatory accounting (RAP). The industry's ability to return to generally accepted accounting principles (GAAP) would be a valuable signal to investors and depositors that this industry will be run soundly.

Third, the FHLBB and the FHLBanks should continue to enhance their efforts to improve supervision. The additional latitude in business activities that thrifts now enjoy must be combined with careful monitoring, especially for thrifts without much of their own equity capital at stake. Active enforcement of rules to limit or monitor the growth of weak and poorly capitalized thrifts should be an adjunct to this supervision. An appropriate system of risk-related insurance premiums may buttress this effort.

Fourth, we need to reconcile states' authority to grant new thrift powers with FSLIC's financial responsibility to pay up if thrifts fail. We believe some proposals go too far in the direction of prohibiting state-authorized activities. Public officials and private businesspeople from some of your states have made this point to us, too. We believe a better balance could be achieved by the retention of additional state powers only in holding company subsidiaries (rather than prohibit them) -- if the Bank Board determines this extra protection of FSLIC is necessary. The state institutions could still proceed in new business areas, but they would need to do so with their own capital (through a holding company subsidiary) instead of with FSLIC-insured funds. This capital could include profits "upstreamed" from the thrift subsidiary -- if they are not necessary to meet Bank Board capital standards.

2. Enhancing FSLIC's Resources

There have been numerous suggestions about ways to raise more capital for FSLIC. The proposals include a special one percent recapitalization, an increase in the special assessment, and a merger with the FDIC. We would prefer to avoid these measures for now, if possible. Instead, we believe the current contributions to FSLIC can be combined with carefully evaluated investments and borrowing from the FHLBanks, spaced out over time.

Some members of the industry are seeking to end the special assessment. While we agree that the assessment must remain "special" and impermanent, now is not the right time to scale it back. We can review the need for this extra charge after the FHLBB has had an opportunity to address more problem cases. Indeed, if FSLIC can deal promptly with some of the weakest thrifts, which are often among the most aggressive bidders for "hot" money, the case resolution effort may be able to reduce the industry's cost of obtaining deposits. This cost reduction would in part offset the special assessment. Moreover, new entrants, if permitted, could lower FSLIC's costs and broaden the industry's capital base, thus potentially lessening the burden for existing healthy thrifts.

To date, the assistance of the twelve FHLBanks has remained relatively minor. The FHLBanks are owned by the industry, but linked to the FHLBB in myriad ways. They are well-capitalized institutions (December 1985 paid-in stock of $8.3 billion and surplus of $1.8 billion) with strong assets and earnings.

The FHLBanks issue consolidated debt, for which they are joint and several obligors, in the private capital markets. In part because of the FHLBanks' ties to the FHLBB, their paper trades as "agency" securities, with borrowing spreads close to Treasury securities.

The Garn-St Germain Act authorized the FHLBB to direct the FHLBanks to lend to FSLIC. There are possible variations on this loan approach, perhaps involving deposits, subordinated debt, and preferred stock. The preferred stock option is preferable because it both increases FSLIC's accounting reserves and provides a budget offset for FSLIC's case resolution outlays. However, authorizing legislation is probably necessary for investments in FSLIC. Furthermore, any financing "package" must be attentive to the FHLBanks' position in the debt markets and to the operating needs of the thrift industry.

In addition, the FHLBanks could take some pressure off FSLIC by providing their standard advances to troubled thrifts without the FSLIC guarantee the FHLBanks require today. These advances might be a substitute for the "hot" money that finances certain weakened thrifts while FSLIC considers how to handle them. The advances would lower the risk and costs of a thrift on "hold" and ease the deposit bidding wars that hurt local healthy thrifts.

I met recently with the twelve presidents of the FHLBanks to discuss our ideas with them. They gave me some important insights. Most important, the FHLBank presidents are anxious to work with the Congress, the Bank Board, and the Treasury to fashion additional FHLBank support for FSLIC. We, in turn, are seeking to arrange a FHLBank financing package that taps the Banks' skills and resources responsible.

3. Expand the Acquisition Program for Ailing Thrifts

We recognize that interindustry thrift acquisitions are a touchy subject for many parties, especially some segments of the industry that wish to avoid competition. But the acquisition logic is straightforward and undeniable. The problem institutions have created real costs that FSLIC and the industry must bear.

Neither the Congress nor the Administration is in the mood to accept a budget-busting bailout, although we can help in other non-expenditure ways. So if the thrift industry wants to cut its costs, it should not close out potential acquirers.

These new competitors are already pursuing alternatives that will enable them to serve consumers and others. Why not channel this energy and capital to help FSLIC (and the thrift industry) instead of trying to retain the market structure of a much earlier era?

At a minimum, we must extend the emergency acquisition provisions of the Garn-St Germain Act, which expire April 15. In doing so, the Congress may wish to modify the statutory bidding process. The law now provides a second shot for some losing bidders through an awkward procedure that has prolonged the process and dampened other bidders' interest.

We also urge the Congress and the regulators to look twice before determining that certain classes of bidders, such as firms with securities affiliates, cannot be accommodated in some fashion. Perhaps certain restrictions on affiliate transactions and conflicts of interest may suffice. In addition, some proposals before the House, such as the "tandem" restrictions, make thrift acquisitions exceedingly unattractive; they also strike a blow against consumers by prohibiting cross-marketing and other business connections that improve service and competition.

The regulators can also play an important role. The FHLBB has proposed a regulation that would increase the franchise value of a failing thrift: It would permit an acquiring S&L the right to expand into three additional states. The Bank Board is also taking steps to speed up the acquisition process and to market thrifts more actively.

The Federal Reserve Board has moved cautiously in permitting bank holding companies to acquire ailing thrifts. The FRB's tandem restrictions on BHCs' acquisitions of ailing thrifts are exceedingly stringent. The separation between an acquired thrift and other subsidiaries is much greater than that between the BHC's bank and those subsidiaries. These rules are vestiges of acquisitions during an earlier era when statutory interest rate differentials were in place, and before interstate banking compacts took hold. We surmise that the FRB is in part waiting for signals from Congress with respect to the current usefulness of such restrictions.

Finally, I should explain how our support for consumer banks is completely consistent with, and indeed reinforces, our effort to expand the acquisition market for ailing thrifts. As the Treasury has stated in the past, we would consider closing the nonbank bank loophole in the context of comprehensive legislation. That legislation would have to include provisions to reduce the statutory and regulatory barriers that currently exist for potential thrift acquirers. That is the only way we can really channel potential consumer bank entrants toward troubled thrifts -- so as to reduce FSLIC's costs, bring new capital into the thrift industry, and continue to offer more competitive and better services for working people of modest means.

Those who argue that they want to encourage thrift acquisitions by closing down consumer banks alone are pursuing quite a different agenda. They do not want the competition from new entrants, and to this end they are willing to cut off valuable new providers of services to the middle class. Indeed, legislation pending in the House reflects this approach: Not only would the bill halt the consumer bank movement, but it would severely discourage thrift acquisitions and tie the hands of thrift owners who want to market more services to small savers.

Summary on Thrifts

The time is ripe to make major advances on the problems of the thrifts and FSLIC. Public confidence in FSLIC and the thrifts requires all of us to come together to take action now.

Mr. Chairman, you have been alert to these issues. You have asked us for a plan, and we are presenting one -- together with the Bank Board, the FHLBanks, and substantial industry support. We know you are ready and willing to act on the right program. We would like to work closely with you and the Members of this Subcommittee as we refine the details over the next few weeks. Then together we can take expeditious action to strengthen FSLIC, this important industry, and the faith of depositors throughout the nation.

II. Agricultural Banks

American agriculture is undergoing a major transition. This transition is critical if we expect to compete effectively for export markets. The new Farm Bill authorizes expenditures of at least $50 billion over the next few years to ease the way. The lower dollar and lower interest rates will help, too.

Nevertheless, current USDA economic projections anticipate several more years of significant pressure on many farmers, rural communities, and agricultural lending institutions. We believe, therefore, that it is critical for the bank regulators to continue to work constructively with farm banks on their problems and the concerns of their borrowers. The regulators' joint statement of March 11, which I have attached to this testimony, is exactly the type of effort we need.

A. Financial Problems of Agricultural Banks

Most agricultural banks* are still sound. But the number of individual banks with problem loans is increasing. The agricultural banking sector will continue to face trying times until agricultural incomes and land prices stabilize. The FDIC and OCC have stated, however, that they do not believe agricultural bank problems will affect the safety and soundness of the banking system.

The banking sector's direct exposure to the agricultural sector is limited to slightly over two percent of total commercial bank assets. Commercial banks hold about $48 billion in direct farm loans.** The almost 4000 agricultural banks hold about $24 billion of this agricultural debt.

Historically, agricultural banks have enjoyed higher earnings, higher capital levels, and lower loan losses than nonagricultural banks. Therefore, in spite of their present problems, agricultural bank capital is still reasonably strong. On September 30, 1985, only 1 percent of the agricultural banks had reported capital-to-asset ratios below 6 percent. (Fifty percent had reported capital of over 10 percent; 37 percent had reported capital between 8 and 10 percent, and 12 percent had reported capital between 6 and 8 percent.) As a group, agricultural banks' capital-to-asset ratio of 9.75 percent was well above the average of 7.5 percent for the entire banking system.

Obviously, there is a great disparity in the condition of individual agricultural banks. There may also be a number whose apparently high capital does not reflect fully the continued deterioration in their loan portfolios. In addition, the troubled banks are concentrated geographically. Sixty-two agricultural banks failed in 1985 -- just over one percent of all farm banks. But 52 were located in the Midwest and Great Plains states, where the farm economy has been hit most severely by the weak export market for American farm products. The failed banks are generally extremely small; the average asset size of failed agricultural banks in 1985 was just under $20 million.

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* Agricultural banks are defined here as those with over 25 percent of their gross loans in agricultural credits (loans secured by farm land, loans to finance agricultural production and other loans to farmers).

** The Federal Reserve Board estimates that at year-end 1985 total U.S. farm debt equaled about $210 billion. Commercial banks held about 23 percent of the total farm debt, the Farm Credit System (FCS) held about 29 percent, the Farmers Home Administration (FmHA) held about 13 percent, life insurance companies and the Commodity Credit Corporation held about 13.5 percent, and individuals and others held the remaining 21.5 percent.

We also must be careful not to suggest that all bank failures deprive small communities of their local lenders. Late last year, the FDIC testified before another Subcommittee of this Committee that 40 of the 50 agricultural banks that had failed as of that time had been reopened -- either as freestanding banks or as branches of another bank. This fact does not deny the hardship to the banker and some problem borrowers. But clearly we have ways to maintain credit in rural towns and communities without resorting to possibly costly solutions to assist all troubled banks.

B. Relief for Agricultural Banks and Their Borrowers

Recent initiatives, both statutory and regulatory, should provide some relief to agricultural banks and their borrowers.

The 1985 Farm Bill, enacted into law on December 23, establishes a $490 million interest rate reduction program for loans made by commercial banks and guaranteed by the Farmers' Home Administration (FmHA). Under this program, a commercial lender must reduce the interest rate on a farm loan to enable the farmer to attain a positive cash flow. Then USDA can contribute as much as 50 percent of the cost of the rate reduction, up to a total Government "rate buydown" of two percent. FmHA published regulations for this new expenditure program in late February, so it is available for farmers and bankers now.

On March 11, the Federal Reserve Board, the FDIC, and the Office of the Comptroller of the Currency issued a joint statement on regulatory policies toward agricultural lenders. This statement explains that "the banking agencies believe it appropriate to employ supervisory policies that will assist basically sound, well-managed banks to weather this transitional period, consistent with the need to maintain an adequate supervisory framework and the credibility of regulatory and public financial statements."

To alleviate the strains on farm lenders, the banking agencies committed to pursue four policies immediately.

First, they will allow a bank experiencing difficulties to operate below the minimum capital requirement, provided the bank has the capacity to restore its capital within five years. In effect, this policy recognizes that a primary purpose of capital is to absorb unanticipated losses: Agricultural banks with respectable prospects of recovery should now be able to draw on their traditionally high levels of capital. The OCC has outlined a special capital forbearance approach for implementing this policy.

Second, the banking agencies reaffirm their intent to accommodate banks that forbear on farm loans through appropriate debt restructurings. It is in everyone's financial interest to keep a farmer on his or her land if there is a reasonable prospect of repayment.

Third, the regulators will make available and encourage the appropriate use of Financial Accounting Standards Board Statement No. 15 (FASB 15) for troubled loan restructurings. FASB 15 can help bankers avoid an automatic charge-off of losses on certain restructured loans, even where there have been notable concessions in financing terms.

In brief, FASB 15 allows financial institutions to maintain the value of a restructured credit, provided that the total anticipated future cash receipts (both principal and interest) at least equal the principal value of the loan. (The anticipated future receipts must be both probable and reasonably anticipated.) This technique should be especially appealing because it helps the farmer stay afloat along with the lender; both need to come to terms to restructure a loan satisfactorily.

Fourth, the banking agencies propose to modify their reporting and disclosure requirements to separate performing renegotiated debt from nonperforming loans.

Finally, I should note that the regulators informed the Senate Banking Committee that the last three of these policies would also be available to lenders holding energy and other loans. The OCC and the FDIC are undertaking an expedited analysis to determine whether the capital forbearance policy also need be applied to energy lenders in some fashion.

Some restrictive state laws -- pertaining to farm ownership, unit banking, and out-of-state acquisitions -- exacerbate current problems. Restraints on farm ownership reduce the demand for, and hence the price of, farm land. Unit banking states limit the ability of banks to weather losses through offsetting profits from a more diversified lending base. Moreover, states that still require acquirers of failing banks to run the banks as stand-alone operations make it hard or impossible for the FDIC to arrange purchases that could maintain banking service for many communities. Neither our rural citizens nor the FDIC can continue to afford barriers to branching in emergency situations.

The emergency acquisition provisions of the Garn-St Germain Act of 1982 provide some flexibility to maintain credit services to areas served by failed banks. But they incorporate significant restrictions that hamper regulators' efforts to solve problem cases: The bank must have failed, and must have assets of at least $500 million. This is "populism" for a few bankers -- but not for farmers, not for people in small towns, and not for the other bankers who must finance the FDIC.

The emergency acquisition provisions will expire on April 15 unless the Congress extends them. We have been working with the banking regulators to propose adjustments that Congress can make at the time of extension. We basically concur with Chairman Seidman's recent recommendations to: permit acquisitions of "failing" banks (already the case for thrifts); reduce the $500 million asset limit, perhaps to $250 million; and authorize the acquisition of a bank holding company where one or more bank(s) in the system is in danger of failing, the bank(s) satisfy the size test, and the failing bank(s) account for a significant share of the holding company's assets. It would also be beneficial if an acquired bank could be operated as a branch instead of as a separate institution.

III. Operational Deposit Insurance Issues

When Professors Milton Friedman and John Kenneth Galbraith are in agreement on an economics issue, I usually find it worthwhile to listen. So it is on deposit insurance. Both gentlemen have stressed the key systemic protection afforded the nation's financial network by deposit insurance.* Moreover, it is important for America's small savers to have at least one totally safe investment.

Over time a deposit insurance system can be only as strong as the industry it stands behind. We are urging the Congress to permit the depository institutions to evolve with their marketplace -- for the sake of the customers they serve and the very health of those financial institutions. In addition, we also must recognize that periods of market adjustment, whether or not we wish it, will result in some institutions failing. It happens in all industries. While we need to avoid substantial costs to the public, the failure of less competitive firms is not an altogether unhealthy sign.

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* Professor Friedman wrote in 1963 in A Monetary History of the United States that:

> Federal insurance of bank deposits was the most important structural change in the banking system to result from the 1933 panic and, indeed in our view, the structural change most conducive to monetary stability since state bank note issues were taxed out of existence immediately after the Civil War.

Professor Galbraith explained in 1975 in Money: Whence it Came, Where it Went, that:

> The anarchy of uncontrolled banking [was] brought to an end not by the Federal Reserve System but by the obscure, unprestigious, unwanted Federal Deposit Insurance Corporation .... In American monetary history no legislative action brought such a change as this.

Failures of depositories, however, cause problems for the FDIC and FSLIC. They must manage the failure process so as to minimize disruption of the financial system and the finances of the depositors. I have discussed such a "failure management" program in the context of FSLIC and the thrifts. Chairman Seidman has also outlined some important operational "failure management" issues facing the FDIC. We share Chairman Seidman's interest in these matters and welcome an opportunity to work with this Subcommittee to enhance the FDIC's ability to protect depositors and the financial system.

One frequently mentioned operational issue is the unequal treatment accorded large and small banks. The inequality arises in part because the FDIC does not have the tools to treat different size banks alike, while keeping costs and disruptions down. The FDIC needs the authority both to arrange purchase and assumption transactions with greater flexibility, and to ensure that stockholders, managers, and liability holders remain at risk.

For example, the FDIC has sought authority to acquire the voting or common stock of an insured bank in connection with an emergency assistance plan. A floor amendment to the Garn-St Germain Act prohibited such purchases. The FDIC has sought this power for two important reasons: to ensure that the shareholders bear their full loss and to give the FDIC time to operate the bank as a going concern while it examines the portfolio closely and readies the bank for sale. Such an "open bank rescue" helps preserve the bank's value and avoids a "fire sale." To avoid concerns about FDIC ownership of banks, the Congress could impose a reasonable time limit on the FDIC's ownership, perhaps with an extension if the FDIC makes certain certifications about the progress of audits, reorganizations, and marketing plans.

Two other key operational issues for any deposit insurer are the definition of deposit and the delineation of accounts eligible for insurance. Some court decisions have broadened the meaning of deposit to include, for example, letters of credit. We believe it is appropriate for the Congress -- in consultation with the FDIC and the FSLIC -- to define deposits by statute; we have concerns about a broad delegation of this powerful authority to the regulators.

The absence of priorities for creditor claims has at times tied the FDIC's hands (and increased its costs) when it has sought to arrange purchase and assumption transactions. We believe the Congress may wish to establish a depositor preference claim over other general creditors, as some states have done.

Finally, the FDIC faces an important operational issue of how it will manage the poor quality assets of failed institutions. In the past, the FDIC often kept the poor quality assets after it arranged for another bank to assume the good assets and deposits. This approach has the unfortunate effect of making the FDIC the owner and liquidator of many loans. The FDIC has suggested that it may be time to leave more loans, even poor ones, within the private financial system. This approach has three benefits. It may make it easier for debtors to restructure their loans, it relies on private sector (often local) skills and incentives, and it eases the FDIC's organizational burden.

In summary, we believe there is much that can be done to improve the "failure management" capabilities of the deposit insurance agencies. The changes wrought by national, even international, financial markets cannot be disregarded. We have an opportunity to adapt our regulatory systems to them, so that consumers and small savers can be served better. I would like to assist this Subcommittee in meeting the challenge.

IV. Services to the Public and Profitability: The Keys to Safety and Soundness

We have outlined today some major and minor proposals to handle the problems of the thrifts and FSLIC, agricultural banks, and the FDIC's "failure management." But I would be remiss if I stopped with those immediate problems.

It is also vitally important that we ensure banks' ability to operate in a fast-changing marketplace -- both to promote their safety and soundness and to supply more and better services to consumers and other customers. Too often in the past, the debate on change in the banking world has focused on the need to expand their "powers" vis-a-vis others, without much discussion of why this expansion is necessary. The debate broke down into an unappealing exchange over "who gets what," particularly in relation to the powerful securities firms.

We believe that we have a duty to explain to Congress why expanded banking services will result in a more secure banking system that can be responsive to the needs of consumers, state and local governments, and America's various businesses. If Congress will not permit banks to evolve with their market, we ultimately will create a much bigger deposit insurance problem than any I have discussed today.

A. Banks' Changing Marketplace

Any deposit insurance system can be only as strong over time as the industry it is indirectly insuring. And an industry can remain financially healthy only if it can compete effectively to serve consumers and other customers.

In the past, banks competed among themselves in a special business preserve created by the law. Neither technology nor changing customer demands posed a real threat. Dissatisfaction with service was communicated through Congress or the regulators as much as through the market.

Those days are gone. And they should be. The price for the banks' security was paid for by consumers, who had ceilings on savings rates and limited investment options; by businesses, many of which were forced to raise funds through less efficient banking intermediaries; and by society, which made saving less attractive and restricted the development of investment instruments that reduce and spread risks.

There are many beneficiaries of the new era -- consumers, small savers, business borrowers, and our international competitive position in a critical service industry. But even if one were willing to sacrifice the interests of these groups in order to turn the clock back for banks, the deed could not be done. The marketplace, technology, and consumer preferences have moved ahead. The big problem today is that banks are falling behind, with a possible consequence for safety and soundness in the not-too-distant future.

Let me offer a few examples.

On the asset side, the growth and diversification of securities stand out as a major competitive challenge to the depositories' loan portfolio business. Many hitherto illiquid loans -- mortgages, commercial debt, even car and other consumer loans -- are now "securitized." These securities offer low-cost, risk-diversified, high-return vehicles for transferring funds from savers to spenders and investors.

The whys and wherefores of this evolution are too detailed to discuss at length in this statement. In brief, advances in computers and communications have made "packaged" transactions and investments less expensive, more flexible, and more available. Investors can acquire more detailed information about the characteristics and risk profiles of myriad investment opportunities -- without relying on banks to "intermediate" through their portfolios. Securities can even be broken down and "rebundled" to suit special investor tastes -- for example, the collateralized mortgage obligation (CMO), which structures cash flows from mortgage securities to suit different preferences for maturity and uncertainty.

The securities' numbers and effects are as notable as their names and acronyms. In 1980, total commercial paper outstanding amounted to $124 billion while commercial banks' commercial and industrial (C&I) loans amounted to $327 billion. By 1985, commercial paper totaled $303 billion and bank C&I loans were $494 billion -- increases of 143 percent and 51 percent, respectively.

Moreover, the competition from commercial paper forced banks to switch a large percentage of their C&I loans from the prime rate to the usually lower money market rates.

Dealer-placed, non-financial commercial paper is most directly comparable with bank C&I loans. The increase in outstandings for this type of commercial paper in the 1980-1985 period was 140 percent, almost three times the increase in commercial bank C&I loans over the same period. (Dealer-placed, non-financial commercial paper outstanding grew from $37 billion to $88 billion -- 11 and 18 percent of C&I loans at the end of 1980 and 1985, respectively.)

Mortgage-backed securities supply another example of the remarkable transformation of illiquid assets into easily traded securities. From modest beginnings in the early 1970's, outstanding mortgage-backed securities of various kinds now total about $375 billion.

Changes on the liability, or deposit, side of the banking business are just as striking. The well-known money market funds took advantage of much lower cost organizations to offer savers a higher return. In part because the Congress passed the Depository Institutions Deregulation and Garn-St Germain Acts, banks have been able to counter the money market funds to a degree. (Nevertheless, between 1980 and 1985, consumer deposits in commercial banks increased by 85 percent while the non-institutional holdings of money market funds increased by over 250 percent.)

Money market funds were just the first shot in the struggle for savers' money. And any perusal of investment advertisements in today's papers reveals that bank investments are the stragglers. The Wall Street Journal's "Business Bulletin" of February 20 led off with the alert that "Banks Scramble for IRA dollars as interest rates decline": This report and others explain that bank and thrift CD's are losing the contest for middle class savings to mutual funds. Meanwhile, Federal district courts disagree over whether banks can offer competitive collective retirement trust accounts.

If banks cannot evolve, the term "counting house" industry may before long become an epitaph like "smoke stack" or "rust bowl." This trend is understandably hard for most of us to accept, schooled as we have been by banking's historical image of affluence and influence. We see some quarterly profits that look reasonable. But the indicators of longer-term expectations about returns on banks' equity are difficult to ignore.

Mr. James McCormick, in testimony before the Senate last year, contended that relative financial performance of major banks has been slipping for about 15 years, as measured by a capital asset pricing model. While bank stocks have moved up with other stocks since the time of that testimony, Mr. McCormick's basic findings about major banks' relative financial performance still appear sound. Poor performance means banks will have a harder time attracting capital; the attempts to earn a higher return in their traditional, limited sphere of business may even increase their loan portfolio risk.

Weak banks translate into weak deposit insurance funds. Such weakness also means that we are wasting a valuable and vital business that can help consumers, small savers, American industry, and our international competitiveness. Economists call them "end-users," but banks call them customers. Banks are trying to adapt, straining to offer more and better services. Appropriately enough, they are seeking different niches -- depending on their size, location, experience, and comparative advantage. But their common problem is that they are hemmed in by out-of-date legal constraints.

I urge the Congress to reconsider and clarify the services that banking organizations may offer their customers. This is not just a matter of competitive equity, but one of competitive survival. If bank holding companies' authority to compete in familiar business areas such as commercial paper, mutual funds, municipal revenue bonds, and mortgage-backed securities is not clarified soon, they run the risk of being bypassed permanently.

Banks' prospects are looking even worse in light of recent court decisions about commercial paper services. Unless reversed by the courts or the Congress, these decisions would force banks to give up business they have handled for years. This retrogression would hurt both business customers and investors.

Banking organizations, particularly small ones, need the freedom to aid consumers and to help themselves by offering insurance, real estate brokerage, and other local services. Banks have been shut off from these activities not because of risk, but because powerful interest groups want to preclude competition. Moreover, the whole of the benefits for savers exceeds the competitive gain from the sum of individual services: If banking organizations can diversify, they can offer integrated financial planning to savers who cannot afford expensive investment advisors.

If the Congress does not wish to deal specifically with each new line of business for banks, it could permit the Federal Reserve Board to authorize bank holding company "activities of a financial nature," with whatever limits the Congress considers appropriate.

B. Consumer Banks

Some people who are concerned about the financial future of depositories have determined the best course is to sacrifice the consumer, or other users of bank services. They seek to hold back new entrants and competitors from the bank and thrift industries. One can understand how those used to the system that prevailed before communications-computer technology and consumer-saver preferences opened up the marketplace have arrived at this position.

Nevertheless, it is a mistaken approach for anyone concerned about services to the public. Moreover, I fear it could be a dangerous course from a safety and soundness perspective -- because we would waste energy trying to hold back the rising waters instead of seeking to channel them toward prudent and productive uses. The so-called nonbank bank is perhaps the prime example of this challenge. I cannot discover anything wrong with a bank that orients its business toward consumers. Indeed, it can bring additional capital, skills, competition, and perhaps retailing expertise to the banking system. Some noteworthy groups have moved past the labels to come to the same conclusion: For example, the American Association of Retired Persons has announced its support for a form of nonbank bank.

It is, of course, important to examine how these new banks will be regulated and supervised. The first answer, contrary to the statements of some, is that consumer banks are chartered and regulated by state and national banking authorities -- just like all other banks. Indeed, a "family bank" bill introduced in the House would subject them to more stringent community service and capital requirements than banks and thrifts face.

It is also important to ask about the regulation of transactions and affiliations between the consumer bank and its parent. A concern for the safety of the bank payments system may merit requiring certain commitments by the parent firm, or structural intermediaries between parent and bank. The blunt approach to this task is simply to prohibit nonbank banks altogether. But then we have lost the many benefits of these new entrants. Moreover, the prohibition approach runs the sizable risk of being ineffective in the face of market change and thus missing an opportunity to develop the right regulation from the start.

There already are a number of laws that govern the relations between nonbank banks and their parents. The Treasury Department would certainly welcome, however, a charge by the Congress to work with the financial institutions regulators to develop uniform rules on the affiliations between nonbank banks and their parents.

V. Conclusion

I would like to work closely with this Subcommittee to address some pressing problems we all recognize. We acknowledge that in a short legislative year, with many issues competing for the Congress' attention, any other approach is likely to result in stalemate.

I believe the difficulties of the thrifts and FSLIC are especially worthy of joint action. We can make a start alone, but we can accomplish much more with your help.

I have appreciated this invitation to present our views today. And I respectfully look forward to many more exchanges in the future.

Mr. Chairman, I would be pleased to answer any questions the Committee may have.

March 11, 1986 Attachment B

Joint Statement of the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency on Regulatory Policies Toward Agricultural Lenders

The Federal bank regulatory agencies are fully aware of the problems in the agricultural sector of our economy and the financial strains these problems have created for borrowers and lenders. In light of these conditions, the banking agencies believe it appropriate to employ supervisory policies that will assist basically sound, well-managed banks to weather this transitional period, consistent with the need to maintain an adequate supervisory framework and the credibility of regulatory and public financial statements. Supervisory and regulatory policies to help achieve these objectives are outlined below.

In addition to the regulatory policies contained in this statement, the banking agencies continue to urge the Congress and state legislatures to take steps to help maintain the provision of banking services in small communities. The Garn – St Germain Act of 1982 prohibits acquisitions across state lines of troubled banks before they have failed and of failed banks with assets under $500 million. The banking agencies believe that these two constraints should be eased by allowing failing bank acquisitions across state lines and by reducing the size criteria so as to maintain the banking services in farm

communities. An easing of state restrictions on branching could also help maintain banking services in small towns in cases when a separately organized and capitalized bank might not be viable.

In order to help alleviate strains on farm lenders and provide additional time to resolve problems in the agricultural sector, the banking agencies express their support for and commitment to the following supervisory policies and principles:

- A major function of capital is to absorb unanticipated losses and help an organization weather a period of adversity. Heavy losses may reduce a bank's capital below normal levels or below minimum regulatory guidelines. The banking agencies will allow a bank experiencing difficulties to operate below the minimum capital requirement provided the bank has the capacity to restore capital within five years.

- The banking agencies reaffirm their policies not to discourage banks from forbearing on farm loans through appropriate debt restructurings, recognizing that such restructurings may be in the interests of both the bank and the borrower when there is a reasonable prospect that the borrower will eventually be able to repay the loan.

- Consistent with their general view toward forbearance, the banking agencies will continue not to require an automatic charge-off of loans that have been restructured. Generally accepted accounting principles, as set forth in Financial Accounting Standard No. 15 (Accounting by Debtors and Creditors for Troubled Debt Restructurings), allow financial institutions to maintain the value of a restructured credit provided that the total of anticipated future cash receipts under the new modified terms which are both probable and can be reasonably estimated at least equals the principal value of the loan. Thus generally accepted accounting principles do not necessarily require the immediate charge-off of loans or portions of loans that have been restructured in accordance with that rule.

- The banking agencies see no compelling reason for interpreting or reporting renegotiated debt with nonperforming loans. In line with this view, the agencies propose to modify regulatory reporting and disclosure requirements for restructured debt so that such debt, if it is performing in accordance with the new terms, would be designated as loans "Restructured and In Compliance With Modified Terms."

Chairman St Germain. Thank you, Mr. Gould.

Mr. Gould, we have been concentrating on the problems of the thrifts and FSLIC. Your statement, in answer to our invitation, naturally addresses those problems, and I don't know when you prepared the statement, but I think that what we have to think of now or address at this point, not look away and pretend it is not occurring, is the fact that all of a sudden, overnight, it appears as though we have a major problem with FDIC.

Are you aware of the situation in Texas?

Mr. Gould. I am aware of the oil situation, and——

Chairman St Germain. No, no; the banking. The problem banks in Texas.

Mr. Gould. On a specific bank-by-bank basis, Mr. Chairman, we are not privy to any regulatory actions or any specific statement of their condition.

Chairman St Germain. You are not privy to the fact that the FDIC is now very concerned about what is occurring in that Southwest region of the country in banking and energy, particularly in those banks that are very heavily committed to energy?

Mr. Gould. Yes, I am aware that the FDIC has sent out a survey to these banks inquiring as to the impacts of energy, and——

Chairman St Germain. That is not what I referred to. They don't need a survey. We have big problems.

Well, let's assume that they have big problems.

Mr. Gould. All right.

Chairman St Germain. I assure you that I am not in error. You outlined to us the increase in staffing at the Federal Home Loan Bank Board—in Federal Home Loan Bank Board personnel, an increase this year, and an increase in 1987 as well from the 1985 staffing. You are aware that under Gramm-Rudman, the staffing of the FDIC is being reduced, as is that of the Comptroller. Moreover, the Fed has stated that they, too, will reduce their staffing.

Does that not seem a little unwise in view of the mounting problems that the FDIC, the Comptroller, and the Fed will be facing; in fact, that they are facing right now and will continue to face?

Mr. Gould. We would be strongly in favor of an adequate level of supervision, and in certain areas, an increased level of supervision.

It is my understanding with respect to the Gramm-Rudman impact that it was a joint decision of the Congressional Budget Office, the General Accounting Office, as well as the Office of Management and Budget that Gramm-Rudman applied to these regulatory agencies even in cases where they are privately funded and not funded with tax dollars.

It is our hope that the Congress will look at that in the near future and decide whether it meant to apply Gramm-Rudman to those institutions or whether a technical amendment is required.

Chairman St Germain. Does Treasury feel as though Gramm-Rudman should apply? Does Treasury feel as though it is unwise to reduce staffing in those regulatory agencies? If so, is Treasury prepared to come to the Congress and request changes so that those agencies can be adequately staffed?

As a matter of fact, they were declared understaffed in hearings not too long ago before this subcommittee. That was stated in the testimony of the Comptroller's Office and the FDIC.

Now, don't tell me about your hopes. Tell me about what you will request, and what you feel is necessary.

Mr. GOULD. All right, sir. Let me answer it this way, if I may.

We have all, including the Treasury itself, undergone the first hit of Gramm-Rudman. It is our belief, in discussion with both the FDIC and the Comptroller of the Currency, that the first cut, 4.2 percent, is bearable without impinging upon their ability to examine and supervise, that certain costs can be taken out of other generalized overhead.

From this point forward, however, the Treasury would support a position which said that the——

Chairman ST GERMAIN. Are you going to support or are you going to advocate?

Mr. GOULD. Sir?

Chairman ST GERMAIN. Support or advocate? There is a difference.

Mr. GOULD. Yes, sir. We would go either way. We would support or advocate, be an advocate for a position which said that as to the supervisory and examination function, we do not think they should be reduced. Whether there are other costs within those agencies which could be reduced, I would have to leave that to Mr. Clarke and Mr. Seidman to speak to specifically.

But the examination and supervision function is one that we would support not being reduced by the impact of Gramm-Rudman or indeed the impact of anything else.

Chairman ST GERMAIN. In your opinion, do the regulators have sufficient authority or tools at the present time, without any statutory changes, to solve the problems or to alleviate the problems being faced in the farm sector of the banking industry and, likewise, in those areas where the banks are heavily committed in energy loans?

Mr. GOULD. Yes, sir, it is our view that the regulatory agencies already in the case of agriculture or energy banks have sufficient tools available to them so that they do not need additional legislation.

Chairman ST GERMAIN. You would therefore oppose legislation now being considered seriously in the Senate by Senator Dole, Senator Dixon, and Senator Gramm; that is, Gramm-Rudman?

Mr. GOULD. We simply feel it is not necessary.

Chairman ST GERMAIN. You, I believe, stated in your presentation that you would not oppose an extension of net worth certificates as long as they are restricted to the thrifts; correct?

Mr. GOULD. Yes, sir.

Chairman ST GERMAIN. Therefore, that is another way of saying you would oppose the extension of net worth certificates to commercial banks?

Mr. GOULD. Yes, sir, again feeling it is not necessary, that there are other tools that can accomplish the same purpose.

Chairman ST GERMAIN. Mr. Barnard.

Mr. BARNARD. Mr. Gould, would you expand a little bit on the Treasury's position on the Garn-St Germain bill?

I think you indicated that you felt like it needed to be extended, and that part—of course other than the net worth certificate.

How would the Treasury propose to—would you propose to expand it or just to extend it as it presently is in place?

Mr. **Gould**. Well, we look at a package really in terms of overall things that could be done to both help more effectively and to cut costs when they have to be incurred.

In the specific instance of the Garn-St Germain emergency powers, we would obviously want to extend them as they have been in operation. But in trying to look at the whole picture, we see, as we have touched on here in the written testimony, we see things that would improve the FDIC's ability to handle bank problems, again particularly in the agricultural area.

Mr. Seidman has testified to a number of those adjustments in the Senate and I believe will be doing so before this committee in April. We view, as he does, that a number of these increase the evenhandedness or fairness of the FDIC in treating large institutions vis-a-vis smaller institutions.

He suggested such things—and we would agree—as the ability of the FDIC to own the bank for enough of a period to bring in additional bidders and give them time to examine what they are bidding on rather than having to do it too quickly to make a balanced judgment.

There are a number of items, then, across several fields that we think would be helpful.

Mr. **Barnard**. Now, let me focus in on one thing. You have no new recommendations as far as changing Garn-St Germain to just the savings and loans except possibly to ask the Federal Reserve to be more restrictive—no, the Federal Home Loan Bank Board—as far as permitting security operations to become involved.

Am I correct there?

Mr. **Gould**. Well, in talking about treating the thrift problem in its entirety, sir?

Mr. **Barnard**. Well, yes. In other words——

Mr. **Gould**. All right. Well, let me try to answer it this way if I may.

When you get into new ground, I guess sometimes it seems a little hazy. You think you can do something under existing regulation, but sometimes I think people would like to have a sense of Congress to sort of help hold their hand, if you will, as they go into new territory.

So I think that it would be helpful to have a sense of Congress, for example, that the Federal Reserve might eliminate its tandem restrictions; to take down some of those restrictions when bank holding companies buy ailing thrifts. That can be done by the Fed now, but I think the Fed is anxious to see how Congress feels about that sort of thing. I think this could also be true of certain actions in terms of new entrants with respect to the Bank Board.

However, in the plan which we will advance in the next few weeks, in considerable specificity as to additional funds to FSLIC, it is our current belief—and we are still in the process of legal research—that we will need legislation, that it will require legislation, for example, to enable the home loan bank system to purchase a preferred stock in FSLIC as opposed to lending FSLIC money, and the budget implications of one versus the other are substantial.

So there will be pieces, and if your question, sir, is will we need additional legislation beyond simply the Garn-St Germain special powers as they previously existed, the answer is yes.

Mr. **Barnard**. Would that legislation also address what you have indicated somewhat, the FDIC's limitations in carrying out the Garn-St Germain as far as the threshold, reducing it from $500 million to $200 million?

Mr. **Gould**. That is my understanding, yes, sir.

Mr. **Barnard**. Mr. Gould, would you expand a little bit further on your statement as far as the nonbank bank situation and as it relates to the thrift problem?

Mr. **Gould**. Yes, sir. In fact, I particularly appreciate that opportunity.

Our view is that there are worthwhile proconsumer benefits offered by a number of the proposals of nonbank banks, whether one calls them nonbank banks, which we think is perhaps a little pejorative, or whether one calls them consumer banks, family banks, or whatever.

We think that by allowing people who have an interest in nonbank banks to express that interest by buying failing thrifts that we accomplish two purposes. We continue to have the proconsumer benefits of those people wishing to come into the banking business, and we provide a source of funds which could reduce the burden on the savings and loan industry by providing money that otherwise FSLIC would have to get either from continuing assessments on the industry or, indeed, from further borrowings or investments from the home loan bank system.

So our ideal world is to put the proconsumer benefits into the form of buying failing or sick thrifts, with possible ancillary benefits of increasing the base, capital base, within the industry and shoring up not only an ailing institution but putting it back into shape with really good capital levels.

So in our ideal world, that is the way it should go. Nonetheless, if Congress did not see fit or regulators did not bring down barriers that would allow those acquisitions and our only choice was whether we wanted nonbank banks or did not want nonbank banks, our conclusion is that there are sufficient consumer benefits to the nonbank banks that we would oppose closing the loophole. We would only consider closing it in the context, as I have said, of a comprehensive piece of legislation which included the ability to express those interests through the thrift industry.

Mr. **Barnard**. My time has expired, unfortunately.

Chairman **St Germain**. If that be the case, why don't you ask us—and many of us would be happy to go along—to extend those consumer—"consumer?"—benefits to all financial institutions. Why not require all financial institutions to do this, if you feel they are not doing this? Since all of a sudden you people are so gung-ho for the consumer, boy, I am happy. You know, the rocket's red glare, the bombs bursting in air.

Why not ask that we do that with all financial institutions, sir?

Mr. **Barnard**. Mr. Chairman, are you saying, oh, say I can see? [Laughter.]

Chairman **St Germain**. Jose.

Mr. **Barnard**. Jose, you can see.

Mr. GOULD. I am not sure the thrust of your question is entirely clear to me, Mr. Chairman, but we are——

Chairman ST GERMAIN. Well, let me repeat it.

Mr. GOULD. All right.

Chairman ST GERMAIN. I will make it very clear. You are a brilliant man. I have read your background, and you are well educated. This is not a complicated question.

You just finished saying that you could see an opportunity for consumer benefits to accrue by means of the consumer banks or nonbank banks, and that these should be attached to the thrifts.

In other words, if an entity wishes to acquire a thrift, we should also ask and require that those thrifts that are acquired provide the consumer benefits that you have outlined in your testimony which you see emanating from a nonbank bank or a consumer bank; correct? Isn't that what you just stated?

Mr. GOULD. Yes, sir, I think that is a little more than I just stated, but I think——

Chairman ST GERMAIN. Well, maybe my ears aren't functioning properly?

Mr. GOULD. I thought that you were implying that after a thrift was acquired it should be changed in its nature.

Chairman ST GERMAIN. No, no, no. I think that what you stated was whether we should prepare amendatory language so that before a thrift is acquired by one of those entities, they must agree to provide those consumer benefits.

Isn't that what you had said earlier?

Mr. GOULD. Not precisely.

Chairman ST GERMAIN. No? I was hoping that that is what you had said because you were making me feel very good.

Mr. GOULD. I think what we have said is that the thrifts provide, both in a geographic sense and in terms of the nature of their customers, that, if you will, they are closer to the consumer than many or most commercial banking institutions. They are a very consumer-oriented set of institutions, all the way from serving people's housing needs on into the Garn-St Germain Act powers of 1982, into consumer loans and other services to the consumer.

We feel—sir?

Chairman ST GERMAIN. I am listening.

Mr. GOULD. We feel that they would be an appropriate entity, therefore, to be acquired by people whose focus is on consumer banking services as opposed to large businesses or large commercial banking. So it is not that we say you are going to come in and then we are going to change the nature of the institution—but rather here are existing structures which go a long way——

Chairman ST GERMAIN. In other words, you are not advocating additional consumer benefits to be attached to an acquired institution when it is acquired by a business entity?

Mr. GOULD. A number of those powers or opportunities exist in the present structure.

Chairman ST GERMAIN. My question now—I want Mr. Wylie to ask questions—you are not advocating additional consumer benefits?

Mr. GOULD. No, sir, we are not requiring.

Chairman ST GERMAIN. Aw, shucks, I am chagrined.

Mr. Wylie.

Mr. Wylie. Good question.

Chairman St Germain. I thought you suddenly had a white hat on.

Mr. Wylie. Maybe he has, Mr. Chairman.

Those are excellent questions, may I say, and we are developing a track record here that I think will be helpful.

But I was interested in your suggesting that a consumer bank is in effect another name for a nonbank bank, which I have been saying all the time. If it quacks like a duck, it reminds me of that old wag about it must be a duck.

But, Mr. Secretary, the chairman alluded to this tangentially a little while ago, you state that nonbank banks after all are chartered as banks and are regulated as banks, and indeed they are, and that may very well be true.

But isn't the real cause of the concern the fact that the nonbank bank's parent is not subject to any of the prudential limitations that would apply to a bank holding company?

Mr. Gould. That is certainly an expressed concern, Mr. Wylie. We have spent a fair amount of time trying to look into whether a number of those expressed concerns are straw men or whether they exist in reality. I think it is a very good question to ask anyone such as the Treasury, who proposes this, what would be the impact on safety and soundness of the banking system, particularly as it relates to access to the payments system.

We have looked at that. We have looked at existing restrictions under the Federal Reserve Act, and others, as they apply to access to the payments system: Transactions with the parents, tie-ins of all sorts. Our feeling, simply stated, is that whatever concerns that people might have in that respect could be structured around, could be taken care of by regulation rather than by merely saying the only way to protect the system is to not let certain types of people in. We believe that there is an inevitability of market change. It has gone on from the postwar period. It has accelerated in the last 10 to 15 years. It is still going on. The internationalization of markets is going on at an even more rapid pace.

There is this tide of change, most of it driven by market demands, by consumer demands, and our thesis is to recognize that pressure of change, that continued evolution, and try to organize it and channel it effectively rather than merely saying the way to handle future worries is to keep static traditional structures.

We don't think it works, and we think by just trying to hold back the tide we will miss the opportunity to channel it in ways that are beneficial.

Mr. Wylie. Well, we agree on the tide of change concept, and maybe, as one of our Members said, the genie is out of the bottle.

But you said the magic words, from this Member's standpoint, when you referred to access to the payment system, and if there is a way that we could provide all these benefits and still address the safety and soundness issue vis-a-vis access to the payment system, why, maybe that is where we should come out. I don't know.

But taking into account the April 15 deadline for expiration of the net worth certificate program—and the chairman asked some questions about that and you were relatively specific—well, very specific, not relatively—it was very specific that you agreed that the net worth certificate program should be extended as it applies to the thrifts.

What would you say about the emergency acquisition authority, which also expires on April 15?

Mr. **Gould**. We would be in favor of extending that.

I should point out in respect to the net worth certificate program that this has not been anywhere near as widely used as has been the income capital certificate. So we would favor its extension, but clearly the Federal Home Loan Bank Board has accommodated some of its needs through the income capital certificate.

Mr. **Wylie**. Now, this may require a little thought, but given the fact that we are going to apparently pass a net worth certificate extension because there seems to be developing a consensus on the need for that and a consensus on the need for emergency acquisition authority extension, would there be anything else that we should include in such legislation that you would regard as an immediate priority?

Mr. **Gould**. Well, I think I would answer that, sir, in a similar way I did to Mr. Barnard. In the sense that we consider the FSLIC and the thrift problem one of rather immediate attention. There would be several pieces, at least in our view, that would be very helpful here which would require legislation, and we would be very happy to work with this subcommittee to provide as much specificity as you would like.

Mr. **Wylie**. Well, I thank you very much.

April 15 is coming up pretty fast, so I wonder if our staffs could work together and see if we could come up with something, Mr. Chairman. Just a suggestion on my part.

Thank you very much. My time has expired.

Mr. **Gould**. Yes, sir.

Chairman **St Germain**. Mr. Gould, are you a member of a credit union?

Mr. **Gould**. Of the Treasury Credit Union, yes, sir.

Chairman **St Germain**. You are a member of the Treasury Credit Union?

Mr. **Gould**. Yes, sir.

Chairman **St Germain**. Are you familiar with the credit union movement?

Mr. **Gould**. In a general but not a specific sense, yes, sir.

Chairman **St Germain**. Were you a member of a credit union before you came to Treasury?

Mr. **Gould**. No, sir.

Chairman **St Germain**. You did not belong to a local neighborhood church type credit union?

Mr. **Gould**. No, sir.

Chairman **St Germain**. You ought to look at them sometime. You talk about family institutions, family banks, consumer banks, and consumer benefits. They are humdingers. Wright Patman, that man up here, used to say, that the closest thing to working men after the church is the credit union. And he was right.

Mr. Cooper.

Mr. **Cooper**. Thank you, Mr. Chairman. I apologize to the witness for being late.

FSLIC-Insured Institutions
(September 30, 1985)

		Insolvent			Low Net Worth - 0-3% of Assets			Total - 3% Net Worth or Less		
	All	RAP 1/	GAAP 2/	TAP 3/	RAP	GAAP	TAP	RAP	GAAP	TAP
Number of firms	3,224	105	461	686	680	788	788	785	1,249	1,474
Assets ($billions)	1,042	22	114	343	253	320	346	275	434	689
Net Worth/Assets (%) (as measured, respectively, by RAP, GAAP, and TAP)		-4.9	-3.3	-4.7	1.93	1.84	1.63	1.38	.47	-1.5
Firms with positive net income in 3rd quarter	2,611	4	225	377	421	587	628	425	812	1,005
Net income ($millions)	1,052	-380	-379	-169	-60	91	462	-440	-288	293
Annualized ROA (%)	.41	-6.80	-1.32	-.20	-.10	.12	.54	-.64	-.27	.17

Source: FHLBB's Office of Policy and Economic Research

1/ Regulatory net worth.

2/ Net worth as defined under Generally Accepted Accounting Principles.

3/ Tangible net worth -- GAAP net worth less goodwill and other intangible assets.

Attachment A

My questions really concern your role—and I hope you will help me understand your role—in our Nation's financial regulatory process. We are accustomed on the committee to dealing with the Comptroller or the head of the Federal Reserve or various spokesmen like that. How do you portray your role in the regulatory scheme of things?

Mr. GOULD. That is an interesting question.

I think our role is—and I am taking you to specifically mean regulatory as opposed to just structure, policy, and a number of other things. I don't know how broadly you mean the word "regulatory," but I think our role is as an observer, is as a thoughtful catalyst to change someone, or a group of people. I must say parenthetically—and I am very glad to have the chance to say it—that when I came to the Treasury I was extremely favorably impressed by the career staff, who are both competent and hardworking and experienced and as a group have a great deal to add to the deliberations of the regulators or indeed anyone else as to the implications of changes in the structure.

So I think ours is a heavily catalytic role of trying to encourage directions that we think are proper and as an occasional innovator of thoughts, but when it comes to specific regulation of specific institutions we do not play a role in that respect and I believe should not.

Mr. COOPER. Well, just focusing on the structural questions for the time being, did Secretary Baker ask you to take an active role in these matters?

Mr. GOULD. Yes, in the sense that there is a Treasury function on the organization chart which involves an area called financial institutions policy. That is an area, among others, with which I am involved. The Secretary has asked me to spend a noticeable part of my time in that area.

Mr. COOPER. Do you think the overall effect of your actions is to help coordinate the various groups, or are you sowing confusion in the process?

Mr. GOULD. Well, I hope we are not sowing confusion. Indeed, I do not believe we are sowing confusion.

Many of the issues preexisted my arrival at the Treasury, and indeed I think it has been demonstrated in the agricultural bank situation and in some others that there is now more cooperation among the regulatory agencies, not on every issue but on many issues more than there has been in the past. We try to talk things out, surface ideas, air our views, and dialog I find is as helpful as any sort of formalized method of doing that.

Mr. COOPER. So, for example, on page 6 of your testimony, when you suggest that some proposals go too far in the direction of prohibiting State-authorized activities for thrifts, you don't view that as somehow giving a conflicting message to thrift operators out there all over the country when they don't know whether to believe Ed Gray or you or someone else?

Mr. GOULD. Well, Mr. Cooper, I don't think Ed Gray and I would differ at all in our concern about some of the activities of State-chartered thrifts. Where I think we might, where some people—indeed, where I think the chairman disagrees with me—is that we feel that, structurally, by the use of holding companies, for example, for powers that go beyond federally chartered powers, that those activities can exist.

And that is preferable and of equal protection to the Federal deposit insurance base; that is preferable to telling the States that Federal law is going to preempt them. And that any activities beyond those in the Garn-St Germain 1982 Act will be forbidden. That has been one of the proposals.

There have been other proposals that we feel, again, stifle the benefits of a dual banking system. We are very strong though, and I would have no disagreement with the Chairman of the Bank Board, or indeed the chairman of the subcommittee, with respect that a number of those activities should not be done in a way that endanger the federally insured deposit base.

So there's a lot of basic agreement here. As always, people see various ways to implement what they really agree on.

Mr. COOPER. To me, the fundamental question is: Who speaks for the administration on these matters? You or Ed Gray?

Mr. GOULD. Well, Ed Gray, sir, is independent. An independent regulatory agency like the FDIC and, indeed, the Fed. If you will, the Treasury speaks for the administration when there is a specific administration policy that is has gone through the normal evolutionary process and is approved and signed off upon.

And that would be true of my statements here today. But, we do not by any means view the independent regulatory agencies as being subject to the dictates of the Treasury.

Mr. COOPER. Thank you. My time has expired.

Chairman ST GERMAIN. Mr. Gould, the Fed says yes, we are independent. But then there are those who wonder at times, when you go back through the years of the actions of the Fed. As far as the FDIC and the Comptroller and the Federal Home Loan Bank Board, who appoints them? The President, right? With the advice and consent of the Senate. Is that not correct, Mr. Gould?

Mr. GOULD. Yes, sir.

Chairman ST GERMAIN. Yes. I will tell you what. I don't know how independent they really are.

Mr. Gould, I will ask you a quick question in between questioners. I think that credit unions are great, really and truly. As a matter of fact, the proposals for so-called consumer banks all contain commercial lending powers, which a lot of the credit unions don't have because they are really and truly oriented toward the family and the consumer.

Would you entertain an appointment, say, for about an hour, with Mr. Jepsen of the NCUA and the heads of the credit union trade associations? Let them spend an hour with you and tell you all about what the credit unions do and how beneficial they are to the man on the street, and the lady on the street. The family.

Mr. GOULD. I would be delighted, Mr. Chairman. We have spent many, many hours and benefited from it, talking to a great series of trade representatives with different points of view, and they have helped educate us.

Chairman ST GERMAIN. Have you had a chance to sit down with the credit union people?

Mr. GOULD. I have not personally. Others in the Treasury do. I will enjoy it very much.

Chairman **St Germain**. I would love to see you do that. You are the No. 1 man, Mr. Gould. I think it would be very beneficial to you and to the consumers of this Nation, since you are spokesman for the administration.

Mr. **Gould**. I would appreciate it.

Chairman **St Germain**. Mr. Dreier.

Mr. **Dreier**. Thank you very much, Mr. Chairman.

Thank you for your testimony, Mr. Secretary.

Following up on a question that was asked by my colleague from Tennessee, you talked about your coordination efforts with the regulators. I wonder if you might specifically talk about your involvement relative to the farm and energy crisis, the banks in those particular regions, and in working with the regulators.

Mr. **Gould**. And by my involvement, you are referring to my institution rather than my personal involvement?

Mr. **Dreier**. Both.

Mr. **Gould**. All right. The Treasury's involvement in agricultural credit started with the farm credit situation of last fall, when Assistant Secretary Sethness testified before a number of committees and worked with the Agriculture Department to try initially to understand the extent of the problem, and to understand the workings and resources of the Farm Credit System.

That was an effort of some duration that occurred last year, and resulted in a farm credit bill in which we gave technical advice and suggestions all the way through. And a number of those suggestions were incorporated in the final bill.

We were pleased with the bill and the effort we were able to contribute to it. Since then, our involvement in agricultural credit has been, again, expressed in testimony by Secretary Sethness in the past month. And I have tried to assist as a catalyst in bringing together the joint statement of the regulators which is attached to my testimony.

So we have played a coordinating role in that regard.

Mr. **Dreier**. What about the energy area?

Mr. **Gould**. Well, with respect to the energy area, which, if you will, is a rather recent occurrence relative to the farm problem——

Mr. **Dreier**. Well, it is. Let me preface before you answer with a little explanation of why I asked that. I recently sent out a letter to 25 of the largest institutions in the country asking them about the crisis.

And the response that I got from them is that it seems to be manageable. Now when I, of course, talk with a great many of my friends in California, independent oil producers and even some of the integrateds, they of course don't share that feeling.

And I wondered what your perspective might be on that.

Mr. **Gould**. My view on that from my present base of knowledge is that the oil problem, as it is now known to us, can be handled by the same sort of regulatory action and would not require legislation.

If I could just take a moment perhaps to expand on that answer with you. If I remember correctly, the price of oil reached its peak of price either in 1980 or 1981—toward the end, I think, of 1980 or early 1981. It has been declining, although modestly, until the end of last year, when it declined precipitously.

So the very fact that there was a downward bias in the price of oil has caused the banks to take a hard look at their loan portfolios for the last several years, and directly with respect to loans against oil as a commodity or as an asset.

My impression is that banks are in pretty good shape on that. Now, obviously, when you radically reduce the price of a commodity, you reduce the activities associated with it. Indeed, you may reduce the land values in the area of oil production.

And so there's a ripple effect or a fallout effect which takes longer to surface.

Mr. **Dreier**. Well, there's no doubt about the fact that some will benefit and some will be hurt, and the question, of course, is what is that ratio?

Mr. **Gould**. Well, perhaps this gets off on a whole new subject, I would be happy to pursue. Being the world's single largest oil producer, America, on a daily production basis, to the extent that there's help on one hand, There is pain on the other as you transfer.

It's a transfer payment in this instance from the producers to the consumers. And it's only a benefit overall to the extent of our imported oil, which is substantially less than our produced oil.

And, again, since oil production happens to be concentrated in certain parts, limited parts, of the country, there is no doubt that both in terms of the commodity itself and in terms of the general economic activity, that will create some problems.

What I'm trying to say is that I think the price of oil is part of the problem. The direct price has been somewhat anticipated or looked at, as indeed have some of the real estate aspects, but it is not helpful to have the price of oil go down in areas that also are suffering from agricultural and other problems.

And if you will, sir, I think it is part of an overall transition that's still going on between the time our economy had high rates of inflation and the present economy with very low rates. There is a cost to that, and we are looking at one of the costs.

Mr. **Dreier**. If I could just ask one quick question. That is, since I have been on this committee, I have continued to hear about the crisis that we face relating to the nonbank banks. And I wondered if you could tell us of any nonbank banks faced with capitalization or insolvency problems?

Mr. **Gould**. No, sir. I think, if the definition of "crisis" is that the nonbank banks are impinging upon the safety and soundness of the banking system, I think that's erroneous. I do not think what has happened so far has done that at all.

Mr. **Dreier**. Thank you very much, Mr. Gould. My time has expired.

Thank you, Mr. Chairman.

Chairman **St Germain**. Do you consider one of the barriers that you mentioned in your testimony to be the prohibition against interstate banking?

Mr. **Gould**. As I am sure you know, Mr. Chairman, the administration has favored interstate banking with a 5-year trigger for some time. I think we also feel that it is an issue that has somewhat been overcome by events in the sense of the regional compacts, and that as, again——

Chairman St Germain. Well, a regional compact won't help the situation in Texas, will it? Because you have to go outside that. I don't know if Texas is in the regional compacts at all.

Mr. Bartlett, is Texas part of a regional compact?

Mr. Bartlett. Texas is a regional compact, Mr. Chairman.

Chairman St Germain. [Laughter.] Oh, Lord. Answer: "Texas is a regional compact, Mr. Chairman."

Well, it appears now, Mr. Gould, that they are going to have to look outside of Texas for a couple of acquisitions. So that regional compacts alone are not solving the problem, are they?

Mr. Gould. I don't want to leave the impression, Mr. Chairman, that I am agreeing with a point of view that says that Texas is about to go bankrupt.

Chairman St Germain. No, not Texas. Certainly not. That's a wonderful State. What I'm asking you is, do you think that the regional compacts are sufficient if indeed some problems arise in Texas with any of the big banks? Because their big bank there is in a situation where it should be acquired. There isn't an acquirer in the State of Texas. They have to go outside of Texas; right?

So a regional compact is not sufficient.

Mr. Gould. Well, I am not departing from the Treasury's, the administration's traditional stance that we favor interstate banking.

Chairman St Germain. Great. Great.

Mr. Roth.

Mr. Roth. Mr. Gould, in your testimony, you had listed a laundry list of expanded powers, like commercial paper, mutual funds, mortgage banking securities, municipal revenue bonds, insurance and real estate brokerage. Are there any other, or are there any particular financial services which should be precluded from offering by the banks?

Mr. Gould. Yes, sir. I think, if I may answer it this way, our observation of what has been going on in banking and, indeed, in other financial institutions, has been an evolutionary process.

And what we are asking for here is to allow the commercial banks to participate in that evolutionary process. But, not necessarily to participate in a sort of a radical process.

Our laundry list is clearly somewhat arbitrary, but those selections are made from a base of saying that we don't believe reasonable people would argue that those services would endanger the health of a bank, particularly being conducted through the holding company.

There may be other activities which would not endanger the safety and soundness and could offer more services and diversified income streams, but in an evolutionary sense we think those activities should be reviewed over time.

We would not, for example, at this moment say that we think banks should underwrite equity securities. Why not try a few of our list with proper supervision and regulation, take a look at how they are going, and then see what else might or might not be appropriate to add.

Mr. Roth. To dovetail with that, have you drafted legislation? I'm assuming you haven't. But you have maybe on the drafting board a legislation at Treasury of proposals for expanded bank powers?

Mr. **Gould**. We have not drafted legislation of our own. We have said that we would be very happy to work with the Congress, and we would be very happy to step up to the plate, if necessary, and give specific proposals.

But what we really want to do is work in whatever way would most quickly and effectively create the legislation. We have no pride of authorship in it. We are happy to work with people who are as interested as we. But, in terms of specific areas, we would be happy to provide what technical help we can.

Mr. **Roth**. In other words, what you are saying, if I interpret you correctly, is you want someone in the Congress or Congress to draft the legislation, and then you will do some of the kibbitzing in saying this is what we like or don't like?

Mr. **Gould**. If that is the best way to get legislation. If the best way to get legislation is for us to come forward on specific points, we would be willing to do that, too. Whatever is most effective for getting the job done.

Mr. **Roth**. Would you foresee any threat to the current banking system, or would there be any competitive inequities if we adopted a consumer bank bill before we go to the expanded powers?

Mr. **Gould**. Well, I think that we prefer the comprehensive approach in the sense that we are in favor of creating more competition in the sense that it creates more services to consumers.

But, in creating that competition, we also recognize we should free the hands of existing institutions to compete in other areas.

So we find it, if you will, hard to just isolate one specific area. We say more people should compete in more areas. And if there were consumer banks, there would be more competition for existing institutions, we think those institutions should be freed up to offer other services as a competitive offset.

Mr. **Roth**. OK. But, more specifically, you know, you might get a consumer bank bill before you get an expanded powers bill. Now, if you got a consumer bank bill, would that do any harm to the banking system, is what I'm asking.

Mr. **Gould**. By consumer bank bill, I'm not sure I know exactly how you define that.

Mr. **Roth**. Well, a nonbank bank bill, or——

Mr. **Gould**. Such as H.R. 20?

Mr. **Roth**. Yes.

Mr. **Gould**. Well, we would be against the enactment of H.R. 20 except in the context of a bill that did grant powers.

Mr. **Roth**. But, what I was driving at is, if we did pass H.R. 20, would that do any harm to the banking system as such, is what I'm asking?

Mr. **Gould**. Well, my understanding of H.R. 20 is that it speaks to certain things in connection with the thrift industry, in terms of tandem restrictions and other restrictions beyond merely the consumer or nonbank bank. We feel those would be harmful.

They would lessen the franchise value of existing thrifts and we feel that other sections of that bill are not procompetitive.

Mr. **Roth**. Thank you, Mr. Gould.

Chairman **St Germain**. Mr. Barnard.

Mr. **Barnard**. Thank you, Mr. Chairman.

Mr. Gould, just three quick questions on the FSLIC and the Federal Home Loan Bank Board.

Would the administration support expanding St Germain, not to failing thrifts but to weak thrifts?

Mr. GOULD. Yes; it almost becomes a philosophical point about how much independence, or what some people might characterize as arbitrariness the Congress wishes to give to the regulators.

It sometimes is hard in the economic cycles and geographical differences in the economy in this country to say that what one does is prudent in one area and not in another. And when you get to trying to define the word "weak," I suspect even that changes over time.

Mr. BARNARD. But, you know, there is a possibility that even by negotiations with a weak thrift that they would want to sell as opposed to declaring insolvency and being taken over by the FSLIC.

So I am thinking that there's a degree there that we could reach which would help resolve some of these problems.

Mr. GOULD. Yes, sir; and perhaps in the process of allowing acquisition at an earlier stage, you might in fact prevent some of those problems from getting worse and, therefore, more expensive to the insurance fund.

Mr. BARNARD. Question No. 2. There has been suggested at one time, even by the Federal Home Loan Bank Board, a 1-percent setaside. Now, this 1 percent set-aside was very vigorously opposed by the savings and loans mainly because of the fact it would be an expense item as opposed to a capital item.

If a 1-percent setaside were so structured where the savings and loans could use that as capital in the general accounting procedures, would the administration look favorably on that?

Mr. GOULD. Well, I think we have very strong doubts that that could be the result, sir, because if you trace it through it's a big number, around $8.8 billion. When that money comes into FSLIC and is used up in resolution of cases, the money is basically gone. And we would think it a bit of an accounting fiction to have it spent on the one side, and over here still carry it as an asset. So we think that would be very difficult to achieve.

Mr. BARNARD. But, now that's the point. The point is that this would be the source of last resort. In other words, it would not be subject to being used to handle losses until—except at the very last priority.

That's what would be a capital note.

Mr. GOULD. Well, then I think our attitude would be that that is an awful big bite for this industry, in spite of their current profitability. That's, I think, asking a lot when, at the same time, we believe we can bring forward very shortly a program involving the home loan bank system that will provide adequate capital without it being the same burden to the S&L industry.

Mr. BARNARD. In other words, if it was a measure of last resort, it might be a different consideration?

Mr. GOULD. Yes, sir. And we don't think we're at the last resort yet.

Mr. BARNARD. Mr. Secretary, we realize that there's a tremendous problem, as the chairman has indicated already, in some areas of the country, both from the standpoint of agricultural and energy.

Can you tell us your views on the need for legislation such as is being developed now in the Senate, and could you tell us about any meetings that you are privy of in the Senate to develop this legislation?

Mr. GOULD. We have felt all the way along, at least defined as the length of time we have looked at this, that legislation is not necessary, that the key elements of the joint statement here achieve the ends that can go a long way in solving the problem.

As to legislation where I have been privy, I cannot say that I have been involved in the development of any legislation. And I believe that it would be an accurate statement that the regulators have, when asked, provided technical advice.

But the regulators and the Treasury are all on the same side of the table in saying we do not need legislation and do not desire legislation.

Mr. BARNARD. Not even reducing the threshold?

Mr. GOULD. In terms of the capital level?

Mr. BARNARD. No, no, reducing the threshold of banks being acquired. We are talking about farm banks now.

Mr. GOULD. Well, Bill Seidman has suggested some ways that he thinks that can be improved, all the way from the problem of branching laws in certain States in terms of size. Yes, sir, that type of thing will require legislation.

Mr. BARNARD. I think Mr. Seidman has also suggested or recommended something that is in place with the National Credit Union Administration. And that is the possibility of having a Federal conservatorship. And I think that was one of his latest proposals.

Would the administration support the FDIC being a conservator, or actually taking over the ownership of a bank?

Mr. GOULD. Yes, sir, we would providing that it was for a realistically short period of time and was subject to examination and review as to extending that time.

We are not trying to nationalize the banking system. But we are quite aware, and people like Bill Seidman can cite chapter and verse, that when you have somebody come in and bid on a bank in such a short time framework, a number of potential acquirers are scared away by not having the opportunity to really know what it is they are buying.

This is an impediment to a purchase and assumption transaction. We could get more bidders and save the FDIC more money if, for a short period of time—several months perhaps—the FDIC could own the bank, invite people in and give them time to look around.

We think that that makes a lot of practical sense.

Mr. BARNARD. Thank you.

Chairman ST GERMAIN. Mr. Gould, let's talk consumer benefits for half a second here.

Mr. GOULD. All right, sir.

Chairman ST GERMAIN. Now, if you were advocating a family bank with consumer benefits or a consumer bank with consumer benefits, what do you think would be preferable? A credit card with a 19.8-percent interest rate? Or a credit card with a 15.5-percent interest rate? Both of them free. In other words, no annual fee.

Which do you think would be the better of the two? Which is more consumer? Which is more family?

Mr. GOULD. You remind me of an ad I have with me for Chevy Chase, which says, from a recent newspaper:

"Would someone please tell us why anyone would pay 21 percent on a credit card when they can get one for 14?"

This is precisely the type of situation we would like to see by creating more competition out there, more proconsumer activities, which, instead of mandating what someone should pay, create a situation of competition where somebody will come along and say, We will do it for 14 percent.

Chairman ST GERMAIN. Mr. Gould, I agree with you. I am not talking about mandating.

My question is: Which is the family bank of the two? Which is the consumer bank? The one that charges 19.8 percent with no annual fee? Or the one that charges 15.5 percent with no annual fee?

[Pause.]

No? If you have difficulty answering that question, gosh, I would be amazed.

Mr. GOULD. No, sir, I didn't have trouble, I think. And I think the answer, is that there would be a panoply of things which would define what is a better consumer bank; among them, obviously, the lower interest rate.

Chairman ST GERMAIN. I am just asking you about the credit card. Which is more consumer and family oriented? The 15.5-percent interest rate, or the 19.8 percent interest rate, neither of which charge an annual fee?

Mr. GOULD. I would have to say I would prefer, personally, as a consumer the lower interest rate.

Chairman ST GERMAIN. Sure. Well, one of the advocates of the consumer and family bank has a nonbank bank in Delaware and they are issuing a credit card nationally, spending millions in advertising on this new credit card, and, their rate is 19.8 percent.

I would say to all those people—think about it. Go to Westerly, RI, where you have a little commercial bank there that will give you the same thing for 15.5 percent. Or go to this one, that Chevy Chase institution, Mr. Gould, does it have an annual fee?

Mr. GOULD. Yes, but a low one.

Chairman ST GERMAIN. Of what? Twenty dollars? Fifteen dollars?

Mr. GOULD. I don't remember exactly. I think more like $14, or something.

Chairman ST GERMAIN. All right. Let me ask you this. The real cost is in the interest rate; is it not? Not the annual fee? If the annual fee is nominal, like $15 to $20, that's not much. The big factor is the interest rate.

Mr. GOULD. If you use it a lot and have to——

Chairman ST GERMAIN. Yes, and if you don't pay——

Mr. GOULD. Right.

Chairman ST GERMAIN [continuing]. On a monthly basis, that interest rate is what hits you.

Mr. **Gould**. Yes, if you are an active user of the card and go into the extended lines of credit.

Chairman **St Germain**. Mrs. Roukema is not here. Well, we can't ask her to—Mr. Bartlett is not here at the moment. Mr. Parris.

Mr. **Parris**. Thank you, Mr. Chairman.

Mr. Secretary, I want to thank you for being here. I enjoyed very much many of the excellent points that I think your testimony contained this morning, Mr. Gould. And, in my opinion, constructive suggestions.

And among those are certainly the increase of the capital requirements, the abandonment of RAP, which to me is not much short of a security scam; the protection of FSLIC by requiring State chartered institutions who engage in equity investments, to restrict their direct investment activities to holding company subsidiaries, rather than outright prohibition of these activities.

I would like to inquire quickly about attachment A to your testimony, which is provided from the Federal Home Loan Bank Board's Office of Policy and Economic Research through the third quarter of 1985.

These are the Bank Board's own numbers. And I am struck by the total column in which you indicate there are 1,249 GAP insolvent or inadequately capitalized thrift institutions as of September the 30th.

Is that correct?

Mr. **Gould**. That is correct.

Mr. **Parris**. That includes the number of insolvent at 461 and the low net worth of 788?

Mr. **Gould**. Yes, sir.

Mr. **Parris**. Or a total of 1,249?

Mr. **Gould**. Yes, sir.

Mr. **Parris**. And of those they lost $288 million, and the annualized return on assets is minus 0.27?

Mr. **Gould**. Yes, sir.

Mr. **Parris**. Now, this I think, Mr. Secretary, clearly delineates from the Bank Board's own figures the problems that many of us have tried to articulate over these last months of the status of inadequate condition of some portion of the thrift industry in this nation.

Let me just refer, if I might, Mr. Gould, to a report that was in the American Banker yesterday, which indicated that half of the Bank Board's thousand investigators, examiners, have been sent to Texas. They are down there. The statement is made that 65 to 75 thrifts in that sensitive area may fail within the next year, by year-end.

The former head of FSLIC, Mr. Sterns, indicated that there are hundreds—these are his words in part—hundreds of thrifts with asset problems up to 50 percent in Texas, Louisiana, and elsewhere. There are "dozens in the $500 million to $1 billion range with serious problems."

It has been suggested that there is what is called a daisy chain of loan swappings going on in Texas, a continuous sale back and forth of bad loans so that nobody can really find out where they are, in an attempt to hide them.

Is there any evidence that that is going on, Mr. Secretary?

Mr. GOULD. Well, if you look at the amount of State powers beyond those of the Garn-St Germain Act of 1982, Texas is one of the States which stands out—California, Florida, Texas in particular. Those three in particular have greater powers.

The evidence that we have seen is largely anecdotal, although I think it only appropriate that with a decline in general economic activity in the Southwest and in Texas, from the oil we were talking about earlier being one factor, it is appropriate for the Bank Board or regulators to look at those institutions in terms of where they stand today.

Presumably land values and other situations will be affected by the declining price of oil, and I think it is particularly appropriate that they do so where there have been powers which have allowed S&L's to go beyond Federal powers and get rather heavily involved in certain kinds of construction loans, and things of that nature.

As to whether there is a so-called daisy chain, I think it has been clear for some time that some S&L's have been selling participations, or in effect syndicating loans throughout the country, where they are the originator and presumably the servicer, but that they have sold these loans around the country. So the impact of local conditions can stretch beyond a Texas or California S&L and go to others in other places if they have been buying participations and loans.

I cannot personally put numbers on that for you, and as I say, our evidence is more case by case than having an overall set of statistics. If—and I don't know whether it is true—but if that article is true, perhaps there will be a better statistical base coming out of that examination.

Chairman ST GERMAIN. Would the gentleman yield for a quickie?

Mr. PARRIS. Yes.

Chairman ST GERMAIN. Mr. Gould.

Mr. GOULD. Yes, sir.

Chairman ST GERMAIN. While we were awaiting your arrival with bated breath, Mr. Baker came up to see me initially to say hello when he was appointed, and I told him about the thrift problem. Then he came up to do a little lobbying on another item, and I said, how about the thrift problem?

He kept telling me about this wonderful gentleman coming into town, and you know what, those thrifts in Texas were in trouble long before you arrived in town, and that was before the plummeting of oil prices.

So don't tie that to the oil prices. I think Mr. Parris had a good question when he said to you, would it maybe have something to do—how come California and Texas—they are No. 1 on the hit parade—with failing and ailing thrift institutions?

You don't think it has something to do with those direct investment powers?

Mr. GOULD. Well, Mr. Chairman, I have read, as I assume you have, a series of academic studies which argue both sides of that.

Chairman ST GERMAIN. Paid for by the prime direct lender in California.

Mr. GOULD. Well, I am certainly not here to defend that study either, although I would say, sir, that I think in all these instances it is a little early in the game to reach good conclusions as to whether those additional activities will contribute or not.

The time span is simply too short to be statistically valid.

Chairman St Germain. Thank you, Mr. Parris.

Mr. Parris. Yes, sir, Mr. Chairman.

Just one last question, Mr. Gould: Would the Treasury Department support a direct investment limitation on federally insured institutions, and, if so, at what rate?

Mr. Gould. Yes, sir. I think the chairman and I have very little difference on the fact that these activities beyond his and Senator Garn's bill should be done away from the deposit base.

We would feel strongly and support totally a structure of the S&L's which says if you, the States, want to give these institutions powers beyond what the Congress thinks is wise and it is Federal taxpayer money ultimately that is funding the insurance funds, then you must do it separate from the depository base; and if you do it with your own money you can make as much direct investment as you want. But don't do it with the depositors' money.

Mr. Parris. But, Mr. Gould, the chairman, with some alacrity, suggests that that is a smoke screen, that whether you do it through a service corporation, a subsidiary or otherwise it is going to impact on the safety and soundness of the original institutions.

Would the Treasury Department support a 15-percent, 10-percent, 20-percent limitation on direct investment?

That is the real question.

Mr. Gould. Well, sir, I would respectfully disagree with the chairman that you cannot insulate these activities by moving them aside and separately capitalizing them in a subsidiary of a holding company.

If there were another approach, if that were discarded as an approach, even though I think personally it is an appropriate one, would we support a limit?

Yes, sir, we would support precisely what is in the Garn-St Germain Act of 1982.

Mr. Parris. Thank you, Mr. Gould. I appreciate that.

Your suggestion of the subsidiary is, I think, a very interesting one, but your enthusiasm for that is not shared unanimously by all the members of this subcommittee.

Mr. Gould. I am aware of that.

Chairman St Germain. Mr. Gould.

Mr. Gould. Yes, sir.

Chairman St Germain. That subsidiary would be separate, distinct in the pot; correct? You would totally insulate the thrift from that subsidiary, right, that affiliate?

Mr. Gould. Yes, sir, you would.

Chairman St Germain. Right, that is the protection you have.

If that is the case, why don't they just form a different investment company? Why bother tying it to the thrift at all, sir?

Mr. Gould. That would be fine with me, Mr. Chairman, yes, sir.

Chairman St Germain. So why don't you advocate that? Say, hey, if you want to go into direct investment that way, form a separate corporation, separate and distinct from an investment corporation? Why in God's name should we take a chance tying it to thrifts at all?

Mr. McKinney loves this subject matter. We will go for 5 minutes to him.

Mr. McKINNEY. Well, it is very nice to see the Secretary here.

One of the things, that I think Treasury has to understand is that most of us are gun shy because of Continental Illinois. Regardless of what anyone tells me, what the U.S. Government did was to save the holding corporation because that was the only out they had. We heard for years about maintaining Chinese walls or Arabian veils, but in the Continental Illinois case we threw all that out the window.

We had the S&L's testify a couple of weeks ago, and the first part of the testimony dealt with getting rid of nonbank banks, which taken to their ultimate, reduce the franchise value of a failing S&L to zero.

Later, during the same person's testimony, he stated that we ought to open up the purchase of these failing thrifts to any corporation with the economic ability to buy it.

Well, why would anyone want it because in fact it would be another nonbank bank?

I mean, Sears is experimenting with the Discovery card and moving the sock counters simply because they want to go into banking. There is no executive with a desire to make anything but money.

And that bothers me. I would simply state that I don't want to set Treasury or anybody else into cement. Things change too rapidly in this world we live in. Oil will go up again just as surely as it has gone down.

But I do think we need to have a legislative priority list, and at the very top, I think, of the chairman's and mine is this direct investment nonsense.

This is a dangerous thing to say to an ex-partner at Donaldson, Lufkin & Jenrette—but I just cannot tolerate my people paying bank fees in Connecticut that are based on the risks that the FSLIC has acquired through the S&L's investments in junk bonds, windmill farms, tuna fleets, and you name it in California, Texas, and elsewhere. I think we ought to state that somethng has to be done either by regulation or even possibly, legislatively.

We will have to vote on this important issue in front of our Nation at some point.

Chairman ST GERMAIN. We are approving the Journal.

Mr. McKINNEY. But anyway, to make a long story short, this Member would love to have a list from Treasury of what can be done by regulation and what must be done by legislation for fear that we don't overlegislate or underlegislate.

Chairman ST GERMAIN. Is the gentleman's question clear to you, Secretary Gould?

Mr. GOULD. Well, Mr. McKinney, I think there is an argument that has perfectly suitable logic, which says if Federal moneys are at stake in insuring the depository base, then that depository institution should not exceed Federal powers, and we are not here to have a brief for mushroom farms or any of those activities.

What we are, I think, trying to say is we believe as strongly as you do in protecting the depository base against non-Federal powers, but there are probably several ways to achieve that protection, one of which is a holding company. That may be more appropriate than absolute prohibition.

Nonetheless, we are as anxious to protect the Federal deposit base as anyone, and if you were to say to me Federal powers, Federal insurance, beyond Federal powers no Federal insurance, I am not going to quarrel with your logic.

Mr. McKINNEY. Well, thank you very much, Mr. Secretary.

I have to remind myself of an elderly lady that came to me at a cocktail party and said, there is no Federal money; it is my money.

Boy, was she right on the dime.

Chairman ST GERMAIN. On that note, we shall repair to the House to cast a vote and return shortly. Secretary Gould, you can stretch and take that seventh inning.

Mr. GOULD. All right, sir.

Chairman ST GERMAIN. I hope we don't have to go to extra innings.

Mr. GOULD. Fine, thank you.

[Recess.]

Chairman ST GERMAIN. Secretary Gould, for a number of years, the gentleman who headed up what he hoped would be—which is not quite yet, but may well be in the not too distant future—the largest financial institution in the world, Citicorp, was Walter Wriston.

Do you recall that gentleman?

Mr. GOULD. Yes, sir.

Chairman ST GERMAIN. Would you say that Mr. Wriston was an able man in his own right and in his own field?

Mr. GOULD. Yes, sir.

Chairman ST GERMAIN. Do we have the microphone on?

Mr. GOULD. Yes. Maybe I should just get closer.

Chairman ST GERMAIN. Well, I would like to quote a little testimony for you.

Viewing the separability question broadly, the FDIC in 1983 in its deposit insurance report to the Congress said, and I quote:

> Although no precise tabulation has ever been made, the weight of opinion seems to be that it is impractical to think that the future of the bank can be separated from the future of the company of which it is a part. The public, it is argued, will inevitably view the institution as one that is deposit insurance in a changing environment—Federal Deposit Insurance Corporation, April 1983, page 13.

And then former Citicorp Chairman Walter Wriston addressed the separability question quite bluntly in 1981 congressional testimony, and I quote:

> It is inconceivable that any major bank would walk away from any subsidiary of its holding company. If your name is on the door, all of your capital funds are going to be behind it in the real world. Lawyers can say that you have separation, but the marketplace is persuasive and it would not see it that way.

That was during the Financial Institutions Restructuring and Services Act of 1981 hearings before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, October 1981, pages 589 and 590.

So you see that it is not just us nonmembers of the fraternity up on this dais, if you would, who are skeptical about the separability of the holding company and its banking affiliate.

Mr. GOULD. May I respond to that, Mr. Chairman?

Chairman St Germain. Sure.

Mr. Gould. I have worked with Mr. Wriston over a number of years, 4 of which were on the city of New York crisis, so I got to know him rather well. Last year Mr. Volcker quoted Mr. Wriston's remarks in a similar context, and I have had the opportunity to discuss that with Walt; I think we are really talking about two different kinds of institutions.

And I am glad you brought it up because I think that is an important point. When you take a big commercial bank, the majority of the money in that bank is not insured because it exceeds the $100,000 limit, and you have got a lot of jumpy depositors who know if anything goes wrong they are not protected by the insurance fund.

Chairman St Germain. Oh, yes, they are.

Mr. Gould. By the insurance fund.

Chairman St Germain. Citicorp—I am sorry to interrupt, but let me tell you something. We have all known for years that we would never let Citicorp fail, we will never let Chase fail, nor will we let Bank of America fail. We didn't let Continental Illinois fail.

Who are we kidding? You know, my gracious, its like what we heard during our hearings on the failure of Continental Illinios National Bank. The testimony concluded that if we had let that thing fail, had we allowed it to fail, that that would have meant that hundreds of banks around the country would have failed and hundreds and thousands of businesses would have gone bankrupt.

Sir, every penny in Citicorp is insured. Every penny. So don't differentiate that way, please. No way are we ever going to let them fail.

Mr. Gould. On that, sir, you are, I am sure, a better authority than I. Let's take an example that may be in danger in the failing realm, where you basically have deposits above the $100,000 limit.

And there I quite agree with Mr. Wriston and Paul Volcker and others who have made pronouncements that the perception that even the same name on the door does create a problem of having depositors—having a run on the bank if the parent company were perceived to be in trouble.

But I think there are two important points to make about that. One is that there are two parts of this: the perception problem and the legal problem.

I have no doubt that where deposits are at risk above the insurance fund the perception problem exists, but I am referring in this testimony to the thrift industry, where 97 to 98 percent of all the deposits in thrift institutions are fully insured because they come under the $100,000 limit. There we have a less antsy group of depositors because there is very little money at risk above the insurance fund maximum amount and where perceptions of problems in the holding company would therefore, in our view, have a lesser impact.

But let's take the extreme case and say, well, even though 97 to 98 percent of that group are fully insured, they still get jumpy and they start to have a run on the bank if the holding company with some of these extended powers gets in trouble.

The thrust of my argument is not to address perception. The thrust of my argument is how do I protect the Federal insurance funds and how do I protect the taxpayer money that backs them up?

The answer is I believe you can create a legal separation, apart from just a perception separation, through a holding company. And that was my attempt here, to protect the actual losses to FSLIC. I think, therefore, Walt Wriston's comments, which I always find of interest, I think here are not analogous to our holding company scheme.

Chairman St Germain. Mr. LaFalce.

Mr. LaFalce. Thank you very much, Mr. Chairman. Mr. Gould, it is a pleasure to see you here.

You come before the committee with tremendous credentials and based upon the work that you have done in New York.

How long have you been with Treasury now?

Mr. Gould. Well, I guess it depends how you define it, sir. I arrived on the Treasury's doorstep last July as a consultant because I had not yet been confirmed, and I became the subject of a jurisdictional dispute between Senate Banking and Senate Finance.

Mr. LaFalce. How long have you been confirmed?

Mr. Gould. November 15, I believe was the date.

Mr. LaFalce. So this is your maiden voyage before our committee, is that correct?

Mr. Gould. In that sense, yes, sir.

Mr. LaFalce. Good.

I personally feel that the Treasury Department has rather neglected banking issues, at least during the past year, while they have spent so much time on the tax bill. I think there is a lot of lost ground to make up, and I look forward to making up that lost time and ground with you, and to working with you in the days and weeks ahead.

One thing that concerns me is we have a tremendous void, it seems to me, in our banking legislation insofar as making our legislation mesh with the realities of today's marketplace.

At one time early in the Reagan administration under Secretary Regan an attempt was made to fashion a bill that could address the situation and fashion the future, although to my knowledge that attempt to present an administration bill has been pretty much abandoned.

Do you have any thoughts in mind of attempting to fashion an administration bill that will deal with the multitude of problems in some holistic fashion?

Even if we couldn't get passage of the bill, at least it would present us with a focal point for discussion and consideration. It seems to me that this would be highly desirable.

What are your thoughts?

Mr. Gould. I don't think, sir, we would have any reluctance to provide you with our comprehensive view of what should be done. It is, I guess, a question of whether the appropriate way to do that is to write our own legislation or try to work with the Congress in assisting that, and again we have considerable flexibility.

We would be happy to work hard with the people that have already spent long hours at this in the House and Senate, or if it would get the job done, we would be happy to come forward with legislation.

Mr. LAFALCE. I understand the validity of that perspective. I understand the validity of a contradictory perspective, too.

I would categorize that perspective, though, as a rather passive role rather than a leadership role. If the passive role is deemed most appropriate, I would understand it, but I also think you would be missing a great opportunity.

I think we have had great difficulty thus far in the piecemeal approach. You know, we have tried interstate banking, and we have reached an impasse. We have tried the nonbank banks, and the nonbank bank loophole closure became a vehicle for a good many other things. But they were bits and pieces. It wasn't a holistic approach, and now we have an impasse there.

We have tried expedited funds availability. It is possible that as we consider an extension of the net worth certificate bill that legislation could become the vehicle for add-ons on an ad hoc basis.

I think in large part this might be due to the fact that there has been no leadership role coming from the administration, but more of a commentary role. You propose a piecemeal approach, and we will comment on it.

I think that we are probably, in my judgment, destined just to take up more time in the future if we continue in this approach.

And so, you are new, from November or so. For whatever my advice is worth, you have just received it, OK.

Mr. GOULD. All right, thank you.

Mr. LAFALCE. Some specifics, though. You have commended the regulatory changes to deal with the problems of agricultural loan portfolios, for example, and I think energy loan portfolios—banks with energy loan portfolios.

What about similar changes for banks with large Third World debt loan portfolios?

Mr. GOULD. I think our view is that, by and large, you are dealing with a different animal if you are talking about sovereign loans, that there doesn't have to be the same sort of forbearance, if you will, that is implicit in some of the rest of this.

The regulators have in place, have had in place ways of looking at loans to LDC's. They have, when it has been appropriate to do so, made certain classifications. They have looked at foreign loans, to my understanding, in the context of a bank's overall position. We have not seen any necessity to offer any advice to the regulators on handling that differently.

Again—and I think I should perhaps keep stressing this—when it comes to specific regulatory actions, there is a high degree of independence and a high degree of confidentiality in the actions of people like the FDIC and the Comptroller of the Currency.

But much as we have said here as to agricultural banks and energy, we think regulators have existing tools to deal with LDC's as well as these others.

Mr. LAFALCE. My time has expired. Thank you, Mr. Chairman.

Chairman ST GERMAIN. There are those of us who think that there is too much confidentiality in those regulatory bodies, that they should open it up to the public a little more. Just like every other corporation that is regulated by the SEC, so should we have a better look into banks so we can make evaluations as to whether or not we should invest in those institutions or rely upon them.

One other little item—we will quote Mr. Wriston again in a loose fashion. I think he is the fellow that said no country will ever go bankrupt, talking about those loans to lesser developed countries.

He didn't call that shot—I don't think.

Mr. Roemer.

Mr. **Roemer**. Thank you, Mr. Chairman, and I thank the witness for his testimony.

I have a quick question, and that only, on a related, albeit distantly, to the questions of safety and soundness.

Back late last year, Treasury was to remove the TGA, the Treasury general account deposits from sick, small and minority banks in this country, none of which are in my district, one of which is in my State in New Orleans. The action was in response to a poor rating given to each of these banks by Keith, Bruyette & Woods [KBW], a national bank rating service.

The Treasury's concern, and a legitimate one, was that should the banks fail they would lose the at-risk portion of their deposits.

However, according to an updated legal review of the extent of Treasury's risk on TGA deposits in banks that may fail, the Treasury Office of the General Counsel states that, quote:

> With respect to State-chartered banks, the United States would have priority over other claimants. Therefore, Treasury's only probable loss would be the use of its funds until the FDIC could come in and release them.

After a great deal of congressional inquiry, of which I know you are familiar, the process was halted in December of last year for two reasons:

One, Treasury wanted to see if their funds were actually at risk in these banks, and, two, to determine if Treasury had an equitable process by which to handle the problem.

Sometime this February, Treasury received a report from the FDIC general counsel explaining their assessment of possible risk. They found that in national banks there was a certain amount of risk. However, in the case of State banks the risk was found to be very small, as Treasury would have first claim on the bank's funds.

Now, I disagree, sir, with the KBW rating. I thought it was cursory and not apropos to the bank with which I was familiar, which leads me to my question:

What has happened with the risk project of the Treasury general accounts? What is your timeframe for action on this program? And, finally, if you are to continue this effort to remove the TGA funds from these banks, I wonder if I could ask that it be done fairly, openly, and with an explanation wrapped in common sense and good reasoning.

Mr. **Gould**. All right.

That is on a subject in which I have been personally intimately involved, so I would be happy to go into it in as much detail as you like.

Mr. **Roemer**. You can keep it brief, to the point, for these hearings, and I will hear from you further, I am sure.

Mr. **Gould**. There has been certain confusion about the universe that was chosen. The fact that five out of the six were minority banks was not the starting premise, but rather it fell out of the fact that the first group looked at were the ones that had the largest number of transactions going through them. And it happened to be that way going back to an affirmative action program instituted, if I recall correctly, in the Nixon administration.

When I came and was confirmed in the fall, one of the first things I looked at was this TGA account, because that is an area of the Treasury for which I have line responsibility. Although I was fully in accord with the desire to protect the taxpayers' money that is in these accounts, I, too, was not convinced that we had used as objective an approach as we might have. I think, quite humanly understandable, people availed themselves of what rating services or other information was available, but you ended up getting into rather specialized types of observation, because these were small banks and not subject, perhaps, to the normal grid against which such things are measured.

So I called off that change in December, and said that we would put it back to full study. We are, I would say, 80 to 85 percent through that study. And we will, I think, hopefully, within the next month or two, come out with a program which fits the criteria you listed at the end of your question—fair and understandable and open.

I would like to add, though, a postscript, because in some ways what we are dealing with here is an impossible task of trying to serve two masters. We are trying to ensure the safety and soundness of the taxpayers' money that moves through these accounts, and yet we are trying to not be unfair in the evaluation of who's solvent and healthy enough to handle them.

That latter is a moving target. It implies a degree of specificity and ability to analyze small banks that really doesn't exist. If we had a guy on the premise every day, maybe we could tell. So we are going to have to end up, as always, in a balance, in a compromise between the two objectives of not hurting these smaller banks and yet protecting the money. In those kind of compromises, there will always be criticisms that it could have been done differently, but we will do our best to try to follow your criteria.

Mr. ROEMER. Well, I accept that and appreciate it deeply, and I can just tell you that I don't pretend to be an expert on the matter, although I have started a couple of banks myself and have some familiarity with small banks.

I took the time to look at the records of the bank in question in the State in which I live, and it is a profitable operation every year, well-respected in its community, and this action would really pull the rug out from under them. Something we don't need.

I ask you to take a close look.

Mr. GOULD. All right, sir.

One way perhaps you can help us: I believe Mr. Seidman in the FDIC is trying to establish the same Federal priority throughout national banks as exists in State-chartered banks, which would give that extra measure of protection to the Federal deposits, which would make it a lot easier to pick and choose among people as to risk.

Mr. ROEMER. Yes, sir. Thank you very much. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Wortley.

Mr. WORTLEY. Thank you, Mr. Chairman.

Secretary Gould, welcome to the Hill. We hope this will be the first of many healthy dialogs that we can have together.

On page 8 of your testimony, you state a list of potential acquirers for troubled thrifts should be expanded to include, for example, firms with securities affiliates.

I didn't know that current law prohibited security firms from acquiring troubled thrifts.

Mr. GOULD. I think that is largely correct, sir. I think that could be done——

Mr. WORTLEY. Is that just a matter of Bank Board policy or——

Mr. GOULD. Yes, although, again, as I tried to state earlier, I think when people make what they perceive to be substantial policy changes, even though they are independent regulators, it is nice to know that they are going along with the general direction desired by Congress. And although I think, strictly speaking, that barrier could be taken down by a vote of the Bank Board, I think it would be helpful to the Bank Board, if there was an indication that this was a desirable direction to go.

Mr. WORTLEY. I don't see why security firms should be excluded, nor do I understand why there should be built-in prejudice against national retailers.

Do you care to make an observation on that?

Mr. GOULD. Well, I would have to agree with you in that respect, in terms of the freedom we would like to see for the parent ownership of the banks.

Mr. WORTLEY. What are they afraid of? Strong national competitors.

Mr. GOULD. Well, I have heard two major thrusts of argument. One is on the competitive side, which says, be consistent in your argument, George. Over here you say that banks, traditional banking structure is under attack, because their markets in certain areas have been eroded, so why would you willingly create new competitors for an endangered species?

Good question, but my answer is not to hold off the new entrants, which we think, overall, create proconsumer benefits, but to say, the way you save the endangered species is to give them additional services which they can offer. And the way you even the competitive field is not to stop change but to give the tools to the traditional institutions to compete in a better and more effective and diverse way.

The second argument says, gosh, you're going to let a bunch of strangers into the club. Bankers are honest fellows, and they have been dealing this way a long time, and their access to the payment system does not implicitly endanger the payment system, but if you let a lot of these in commerce come and join the club, we don't kind of know them as well, and we only get one bite of the apple with them, just at the bank, not at the holding company. And we're not so sure but what their presence will endanger the payment system and have a ripple disruptive effect throughout the banking system and the economy.

I find that a strawman, frankly. I think you are going to have to look at that carefully and have the right rules. But there already exist models in the Federal Reserve Act, and other restrictions could come into place on the basis of the study of a commission or the right group of people looking at this. The payment system is, in our view, not going to come to its downfall and cause a collapse of the economy, because the parent is someone other than a regulated bank holding company.

Mr. WORTLEY. Is there any concern that the creation of more nonbank banks might lessen the value of thrifts? Is that a concern?

Mr. GOULD. And again it goes back to the fact that we would like to, as I have tried to emphasize in my testimony here, we would—consistent with the Treasury's position in the context of a comprehensive bill with new services and breakdown of barriers—we would be willing to see the so-called nonbank bank loophole closed. But the quid pro quo of that is that that proconsumer movement would expend its energies through the thrift.

If you just said to me, on balance, is it worth keeping the nonbank bank, because you are not going to get the rest of what you want, the answer is yes, we think the overall benefits to the consumer are worth keeping the nonbank bank. The hazards of it are de minimis.

Mr. WORTLEY. Would you preclude the acquisition of thrifts by any type of company?

Mr. GOULD. With the proper attention to the relationship between the parent and the bank, much of which exists at the present time, those types of restrictions, I would not. And I was reminded in thinking about this question, of my own experience over the years of having watched Wall Street securities firms evolve from partnerships, where each partner had to be approved by the stock exchange, to corporations where each shareholder, voting shareholder of the corporation had to be approved by the stock exchange, to public ownership by an amorphous group of public shareholders. And those different changes of ownership have not ruined the integrity of the underlying institutions. Wall Street firms are still regulated by the SEC, the stock exchanges and the NASD, et cetera.

And the fact that the ownership has changed over the years, has not hurt the integrity of the institutions.

Indeed, if it weren't for that, we wouldn't have the capital available in the security industry now to create the liquidity that is needed by the economy.

Those kinds of changes in my mind and in our mind are proper and inevitable.

Mr. WORTLEY. Thank you for the analogy and thank you for your testimony.

Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

Secretary Gould, welcome. I was the ranking Member of another subcommittee. We are discussing the Baker initiative today, but I want you to know that I am particularly interested in your comments concerning the financial problems of agricultural banks, which won't shock you.

Secretary Baker gave you a lot of credit during a breakfast recently for having brought the regulators together to finally address the problems of agricultural banks.

I do think that your statement perhaps obscures the problems that are concentrated in one geographic area of the country. You do go on to explain that, but I think it is important to emphasize the fact that the capital asset ratios, which you say are quite high, that is a condition for agricultural banks across the country. And if you look at the FDIC report of February this year, they show that enough banks will fail in Nebraska and Iowa alone to match the number for the whole country this year, under the highest projection level; and by their medium projection level, it comes almost to that point.

I guess I would also emphasize that it is true most banks have reopened. About three did not in my State. But the level of acceptable risk is continuing to be lowered. And as we need to have capital available for diversifying our economy with no prospect for improvement in the agricultural economy in the near future, having those banks open isn't the only answer. They are abandoning borrowers, and we have accordingly a substantial problem.

Some people believe that if the agriculture committees of the two major banking organizations hadn't come together and provided their recommendation, and if people like myself hadn't introduced legislation to try to solve some of the problems that these agricultural banks are having, we wouldn't have had the move even yet from the three regulatory agencies. I tend to believe there might be some truth in that.

I have three questions.

One, the short one: Is it possible to accelerate the first of the four items that you are covering in your testimony regarding the regulatory agencies?

Second, isn't it appropriate to consider the recommendation to create a secondary mortgage market for agricultural loans? All kinds of parallels, of course, exist for other types of loans, but those took Federal action.

And third, I have understood that you did not support the extension of net worth certificates to agricultural banks. I have a hard time understanding why the more recent modification of that extension that I have proposed in draft legislation might not be a good idea, considering that the entire banking structure of some of these Great Plains Midwestern States could really be classified as an agricultural bank.

Could you try to respond to those three questions, particularly the latter

Mr. Gould. Yes, sir, I will. With respect to your first question, I gather you are referring to the four items that we talked about strengthening in the thrift industry?

Mr. Bereuter. Commercial banking with respect to agriculture banks the capital forbearance idea. I understand the changes proposed in the regulation process are going to take up to 45 days. Is there any way of accelerating that, because this is a crucial time of the year for our part of the country?

Mr. Gould. I think that it really goes back a bit to your point about what caused this sudden interest on the part of the regulators in the problem. I think that as this agricultural problem has evolved here, it's gotten a lot more attention, but in the process of that attention, I think the regulators have found that they had things in their kit bag, which they could have used before, if it had been focused upon to the degree that it now is. And that they are well along on their road to the implementation of all of what they propose here, jointly.

Mr. BEREUTER. Yes, this was a cavalier attitude, I might suggest. Not benign neglect, just neglect.

Mr. GOULD. Well, I guess one of the things I am learning is that what really gets movement in Government is near term crisis. But let's take something like FASB 15. That is an existing tool of the regulators and has now been communicated and is being communicated out and is a legitimate and consistent accounting method to look at and to aid the restructuring of loans.

So I think all of what is involved in that joint statement at the end of my testimony is operative—not prospective. That is going on now.

Mr. BEREUTER. Can you accelerate No. 1?

Mr. GOULD. Yes. I think the very agreement among the regulators accelerates No. 1. Personally, I am encouraged by the agreement that has taken place between the Fed and the FDIC and the Comptroller of the Currency in defining the method of application of No. 1, and I think it is quite near term.

Mr. BEREUTER. Second, on the secondary mortgage market before the net worth certificate question.

Mr. GOULD. All right. Yes, absolutely there ought to be an effort to have a secondary market in such loans. I guess I say that, among others reasons, because I think it is good for liquidity for banks to be able not to sit on something they originated, but to be able to sell loans and create liquidity for additional lending. In the case of farming, for example, as a way of creating new credit. And yet, I would hastily have to add that I don't think you can have a secondary market without there being pretty good quality to the loans that are being introduced into that market. We have really kind of an old precedent now about mortgage-backed securities, and I would see agricultural loans as just another part of a broadscale trend to securitization. But an important one in the case of the agricultural banks, because it is a way of creating liquidities that can be used to continue to assure adequate credit for the farming sector.

Mr. BEREUTER. Thank you. Secretary Gould, my time has expired, but if you could get to my last and most crucial question, I would appreciate it.

That relates to why you are opposed to some modification of net worth certificate being extended to agricultural banks.

Mr. GOULD. I think I could answer that very quickly, sir, which is, I don't think we feel it is necessary, for the same end result, to require that form. I think the regulators can accommodate an impingement of capital and adapt it in a way that doesn't interfere with their loan limits to individual borrowers without having to go through the administrative process of net worth certificates, which are, in effect, a promissory note. And I think the problem will be accommodated in other ways.

If it were to prove that it can't be accommodated in other ways, it deserves another look.

Chairman St Germain. Well, the fact of the matter is that, we don't—why should we keep looking and looking. We have a lot of things to do.

What objection would you have to our extending net worth certificates to the agricultural banks and then leaving to the very competent, efficient brilliant regulator, the FDIC, to make a determination as to whether or not it would be used?

We extended it to the thrifts, including mutual savings banks that are insured by the FDIC, and my information is that it was used in very, limited situations, because under Bill Isaac, net worth certificates were hardly ever allowed.

So wouldn't you have total confidence in your very efficient, capable, able, brilliant Chairman of the FDIC to not abuse the net worth certificates, if they were there? You know the kit bag you mentioned? What would be wrong with giving them another tool in that kit bag?

Mr. Gould. Well, I think it interesting to use the analogy of the Federal Home Loan Bank Board, where they have had the authority and have used net worth certificates to a much lesser extent than they have used other devices, because they find the other devices more adaptable to the problems they encountered.

I continue to feel it is not necessary. If you felt it was appropriate to overequip the FDIC, why I would certainly——

Chairman St Germain. You wouldn't lose any sleep.

Mr. Gould. No, sir.

Chairman St Germain. Mr. Gould, on page 8—you don't have to look at it—of your statement, you suggest addressing the FSLIC and the thrift problem by permitting any responsible company to acquire ailing thrifts.

Well, that has been suggested before. In our discussion with Chairman Gray, he naturally, says that he agrees and that he had hoped that would happen. However, there are not many firms out there that want to buy an ailing thrift. They are just not interested. Do you think that this—putting this in the statement—will get them so excited about buying an ailing thrift now, that they are going to change? I mean, what has occurred here in the past 24, 48, 72 hours—that makes these ailing thrifts that much more attractive to a suitor?

Mr. Gould. Well, I think the way to make the ailing thrifts attractive to a suitor has a great deal to do with the ground rules that you set, now and prospectively. What do I mean by that?

Well, I think a specific program to bolster the resources of FSLIC that delineates the responsiblity and cost to the industry itself in that program is an important thing to accomplish before somebody wants to bid on an ailing thrift and find they get assessed 1 percent of their capital.

So I think that is an example of setting the ground rules and having them known. I think further statements by the Federal Reserve and/or legislation which loosen the tandem restrictions of bank holding company rules would make more banks interested in buying thrifts, or so they have told me.

I think you can go a number of ways to make policy statements that enable people to sit down and say, I now find it attractive in the format that you have presented to me. I would not have found it attractive before, when it was a lot hazier.

Chairman ST GERMAIN. No; you keep saying, "I think." And that leads me to think that people at the Treasury believe this; but, in reality, how many people or how many prospective suitors have said, if you do A, B, C, then we will buy an ailing thrift that is in dire financial stress?

Mr. GOULD. Well, it is a very good question, Mr. Chairman, and it is one we have asked ourselves. I use the phrase, "I think," because I don't have a series of signed contracts in my folder; I don't want to overstate to you.

Chairman ST GERMAIN. No, but you have had some inquiries; right?

Mr. GOULD. We have had a number of discussions which would indicate to me that there could be a sum of money, $1 or $2 billion, that could be available in this regard. I think even with a careful case-by-case survey, it is going to be difficult to get firm commitments until there are firm commitments on the other side, but a noticeable amount of money, I believe, is available.

Chairman ST GERMAIN. Would you be kind enough to submit to the subcommittee the facts on which you base these statements?

Mr. GOULD. Yes, I would.

Chairman ST GERMAIN. That would be helpful to us, because——

Mr. GOULD. I would be glad to do that.

Chairman ST GERMAIN [continuing]. They would entertain it, well, my gracious—and I realize you will not obtain a firm commitment.

Mr. GOULD. It might overstate it to call them facts. I would prefer to phrase it as "our judgment based upon conversations and observations."

Chairman ST GERMAIN. That's fine.

Chairman ST GERMAIN. Now, as you know, we have a couple of bills pending in the Rules Committee. One of them is the Interstate Banking Act which has a trigger. Now within that legislation, we have some community investment and consumer benefits requirements.

Are you familiar with that particular piece of legislation, the 5-year trigger on interstate banking?

Mr. GOULD. Yes, sir.

Chairman ST GERMAIN. H.R. 2707. And I quote: "The committee believes financial institutions that avail themselves of the benefits of interstate banking"—and you support interstate banking, I assume; right?

Mr. GOULD. Yes, sir.

Chairman ST GERMAIN [continuing]. "should continue to assure that communities and consumers have access to central bank services."

So we want consumers to have access to bank services.

> The committee finds the economic well-being of the national and local communities, families, individuals depend on banks making a commitment to meet deposit and credit needs of the areas which they serve on a new interstate structure. The committee takes notes that many areas have been plagued by wholesale closing of branches, banking practices that limit the access of low- and middle-income persons and small business to basic bank services and loan patents that threaten the existence of rural communities in urban neighborhoods. The committee believes that ba-

sical safeguards should be established and made an integral part of interstate banking to assure the communities, consumers, small business persons, and farmers are not excluded, and that banks are not allowed to abandon their public responsibility when they cross state boundaries.

Now as a nouveau arrivé advocate of community and consumer benefits, do you support the provisions of H.R. 2707 that would assure banking services to——

Mr. GOULD. Yes, sir, I would certainly support the objectives you just read to me.

Chairman ST GERMAIN. Great.

Now let me ask you this, since we are on a roll here. Would the administration support legislation that would impose strong consumer safeguard and community service requirements on all depository institutions?

Mr. GOULD. I hate to make it three for three, Mr. Chairman—and I am not quite sure what you mean by "strong," in the specifics of it, but——

Chairman ST GERMAIN. To ensure that there are banking services available.

Mr. GOULD. In concept, those goals are certainly totally consistent with what we have said here and would support.

Chairman ST GERMAIN. Right. Now does the administration support the truth-in-savings bill that was introduced by one of our Members, Mr. Lehman of California?

Mr. GOULD. I can't say that I can speak specifically to each provision, but there is very strong feeling on our part that disclosure is necessary for the consumer and, indeed, it may be the basis of good competition between one institution and another, if they have to say what their charges are, and so forth.

Chairman ST GERMAIN. Now, we have another member of the committee, Ms. Oakar, who has an access banking account bill to provide minimum banking services to low income consumers.

Have you looked at that one?

Mr. GOULD. I have looked at that, not in detail, but I am familiar—is it the so-called lifeline banking——

Chairman ST GERMAIN. Yes.

Mr. GOULD. Yes.

Chairman ST GERMAIN. Such as I take it now exists in Massachusetts. If you would like, could you reply to that one in writing?

Mr. GOULD. Yes, sir.

[In response to the request of Chairman St Germain, the information was submitted for the record by Mr. Gould and may be found on page 437.]

Chairman ST GERMAIN. Sure.

Mr. GOULD. Yes, sir.

Chairman ST GERMAIN. And last, the delayed funds availability legislation which passed the House and was amended by our colleague on the committee, Mr. Shumway and others.

Have you an opinion on that legislation?

Mr. GOULD. Yes, sir, I do. And you know, I share your earlier expressed admiration of Mr. Volcker, and this is an area in which there has been some discussion between the Fed and the Treasury as to whether it is realistic to expect the clearing system, as it is presently constituted, to be able to meet the targets expressed in the House bill. And I know that Mr. Volcker has had concerns over that. I cannot speak definitely, because I don't have the technical qualifications to know the pros and cons exactly. But what we do believe is that rather than specific holding periods or specific wording that is imposed, we really go back a bit to the disclosure item and think that you have an interesting opportunity here to further competition among the banks.

For example, if the Chase held your checks 2 days less than the Citibank, we think that could be a very interesting competitive tool to introduce, but it would have to be introduced on the basis of truth in lending—we'll have to call it truth in holding, but of requiring each bank, for example, to disclose how long they hold items and how they handle them out of town, et cetera.

So we have a strong underlying agreement with the thrust of the House bill, but we believe that its benefits can be achieved as much through disclosure, and we are concerned about imposing on a system a standard which it is not yet technically able to handle.

Chairman ST GERMAIN. You do realize that New York, California, Rhode Island and many other States have already enacted legislation very similar to that which was adopted in the House. And that the State of New York has had it for almost 2 years now. Citibank and Chase are doing famously well with this, and they all—incidentally, the banking fraternity in New York all negotiated with the superintendent of banking in New York, and they are the ones who came up and agreed to these requirements.

So why should we restrict that to these State-chartered institutions in New York and not require it nationwide, all 50 States? That's my concern.

Mr. GOULD. If it can be done within technical realism and can be done without an undue regulatory burden that could otherwise be achieved in the competitive market——

Chairman ST GERMAIN. Secretary Gould, it is being done. Yes.

Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman. And, again, I compliment you for your statement and your testimony here today. It's been a most impressive appearance.

Mr. Secretary, last week, Chairman Gray testified that the so-called nonbank bank loophole must be closed in order to maintain the attractiveness of thrift acquisitions. I don't know if anybody's asked this question before. If they have, then—they have asked it?

Chairman ST GERMAIN. Yes.

Mr. WYLIE. OK. Well, sometimes——

Chairman ST GERMAIN. Try it again.

Mr. WYLIE [continuing]. Repetition adds emphasis to the problem that we face. But many of the statements today have gone to the thrifts and their problems, and what we can do about it.

And you suggest that the thrift-FSLIC problem could be handled by channeling efforts through the so-called nonthrift thrift loophole and by acquisition of thrifts by banks.

Is this an exploitation of the so-called nonthrift thrift loophole? And is that good public policy?

Now I might also say that Chairman Volcker suggested the closing of the nonbank bank loophole plus the closing of the nonthrift thrift loophole.

Mr. GOULD. Well, going back to the sort of original part of that, sir, we again would agree that in broadly based comprehensive legislation, where additional services were made available to existing banks, we feel that the nonbank bank loophole could then afford to be closed because we have really, in our view, effectively channeled the benefits via the thrift industry.

So, on that basis, I would agree with Chairman Gray that if you had both alternatives always open to you, the alternative of buying ailing thrifts and/or starting something clean, fresh and de novo, that you would have lowered the franchise value of those ailing thrifts if you continued to allow people also to start something from scratch.

But that's really not what we are proposing in the world as we see it. I think—I don't wish to speak for Mr. Volcker because I find him quite able and effective at speaking for himself—although we have had dialogs with the Fed. We have tried to do some homework here where we have sat down with people at the Fed and said let's talk about the payment system. Let's talk about the types of concerns that you feel are real if we open the door further to the parentage of banks, and thereby create access to payment systems.

And we have learned a lot. They're very good at it. We have also ended up disagreeing with them perhaps as to the extent of that problem or danger and the extent to which it cannot be handled by structural means.

So, again, when you talk about closing loopholes, it seems to us almost too easy sometimes to say let's mitigate the danger that might be created by stopping evolution, rather than having to address the evolution that's taking place anyhow and say how do we handle it best.

And I feel that way generally about these so-called loopholes.

Mr. WYLIE. I think indeed there is an evolution taking place as I suggested in my opening statement. I was just putting this in the frame of reference of redirecting, if you please, the banks' efforts and energies into acquisition of failing thrifts.

Maybe that's not necessarily a concern.

Another question along those lines though, on page 7, you state that the, quote, "FHL banks could take some pressure off FSLIC by providing their standard advances to troubled thrifts without the FSLIC guarantee the Federal Home Loan Bank Boards require today."

Couldn't that have a negative impact on the credit rating of the Federal home loan banks if these guarantees weren't available?

Mr. GOULD. Well, I think they would have to pick and choose on a case-by-case basis, so that that didn't happen. We have tried to be very conscious here, and continue to be conscious in what we will propose in more specificity as to our plan about the Federal Home Loan Bank Board's position in the public markets.

We had a good casebook example of it last fall in the Farm Credit System. We are also well aware that we would be self-defeating if, in providing money to FSLIC from the Federal home loan banks, we increase their cost of borrowing which was passed along to the industry, and we would end up hurting the very thing we are trying to help.

We are sensitive to that. We wouldn't want them to go to any degree that impinged upon their borrowing rates. And I can assure you that they are as sensitive, more sensitive to that than we are.

I am also very glad to say, however, that we have here a system which has been well run, very healthy asset base, darned good earnings, and we have something to work with that is tied into the Federal Home Loan Bank Board. And in terms of protecting FSLIC's cost to the taxpayer, I am very happy to see the home loan banks in the middle, and to see the very cooperative attitude that the banks and banks presidents have toward this problem.

It makes it a lot easier to come up with a, quote/unquote "solution."

Mr. WYLIE. Thank you very much.

Chairman ST GERMAIN. Mr. Bereuter, do you have any further questions?

[No response.]

Chairman ST GERMAIN. Mr. Carper.

Mr. CARPER. Thank you, Mr. Chairman.

Secretary Gould, good to see you. Welcome to the subcommittee today.

Mr. GOULD. Thank you.

Mr. CARPER. I just want to ask a question. There are some people who believe that deregulation, whether that is deregulation in the airline industry, or whether it's deregulation among financial institutions, that that deregulation should also be accompanied by less supervision.

I think the Gramm-Rudman cuts, or the potential Gramm-Rudman cuts, may ensure that there is indeed less supervision at a time when there are also some alarming failure rates among thrifts and banks. And they have gone so far as to, I think, threaten the health of the FSLIC itself.

I just would welcome your thoughts on any need for strengthening the examination process in this deregulated environment through either more or better paid or more highly motivated or better-trained examiners.

Your thoughts. I would welcome those.

Mr. GOULD. All right, sir. Let me start with the premise that even within our own shop at the Treasury, we have tried to be careful of our vocabulary. And when we refer to deregulation, we are talking about deregulating services. We are not talking about cutting out supervision.

So we make a differentiation ourselves between deregulation and supervision and examination. And I think that's very important to do here, particularly as, hopefully, you go down an evolving path. With additional services offered there is almost the argument, I think, for more supervision at least while things get started and you see how it's all working out.

I tried a bit in my written testimony to address the supervision. I would be happy to try to do it more verbally. We believe very strongly that there has to be a higher level of supervision on the part of the Bank Board than they have been organized toward in the past.

The volume of case problems has gone up. Because of the extension of State powers, probably a greater degree of sophistication is needed on the part of examinations, not just looking at the old problems of interest rate mismatches between liabilities and assets. You're now looking at a more extensive set of problems. That requires more and better supervision.

The Federal Home Loan Bank Board has handled a good bit of that by transferring their personnel out to the home loan bank system, which I think has been effective in two ways.

One, I think it's been effective in a local hiring sense as they expand that number. And I think it's been helpful on a local knowledge basis, that particularly in the S&L's, the local conditions have a great deal to do with the status of the bank, whether it's real estate or whatever locally.

We would, going beyond the Federal Home Loan Bank Board, we would support—and I believe this is an accurate statement of his position—I think Mr. Baker would support a technical amendment which would take the pressure off the Comptroller of the Currency in terms of supervision, but not of his total budget necessarily. Perhaps there are cost cuttings which could be done there advantageously—but we want to make sure that the supervision and the examination process don't get caught up in another Gramm-Rudman cut.

And we would ask—and hope—that Congress as a whole would address the Gramm-Rudman situation not merely to our parochial interest in the Comptroller of the Currency, but as it applies to the FDIC and across the board of regulators.

The Fed is voluntarily going along with it. And so, even though they are not directly caught up in the net, they are trying to follow the spirit of it. And I think it would be very helpful to Congress in the case of the Fed to tell them how you feel about regulators and Gramm-Rudman.

So, we are for higher quality, for better training and, in some cases, for more numbers and for what is necessary, therefore, to get that job done.

Mr. CARPER. Good. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman ST GERMAIN. Secretary Gould.

Mr. GOULD. Yes, sir.

Chairman ST GERMAIN. This committee has written to the regulators, as well as to Treasury, asking for comments on a piece of legislation introduced by two very distinguished Members of the Committee on Banking, Mr. Lundine and Mr. Carper. We are still awaiting a reply.

Now I would hope that we can get a reply at an early date. In fact, it's overdue already. And, you know who the one regulator is that has replied? NCUA. God bless those credit unions. [Laughter.]

How about that?

Mr. GOULD. I hope they can do that without having too many problems to have to reply about. I am glad there's somebody that doesn't have problems.

We owe you, Mr. Chairman, a reply to the letter, which, if I recall correctly, and only recently has this come to my attention, you asked us that question back in January, I think. And we are overdue and I won't excuse our occasionally——

Chairman **St Germain**. No. Instead of doing that, please see if we can't address it.

Mr. **Gould**. We will follow through on that, yes, sir.

Chairman **St Germain**. Secretary Gould, we want to thank you for a very enjoyable morning and part of the afternoon. I hope you have enjoyed it as much as we did and I want you to know that we've benefited from your appearance. I hope that our sharing thoughts with you has been beneficial as well.

Mr. **Gould**. Well, I appreciate the chance to come, and I appreciate your courtesies. And it has been fun and I look forward to the next time.

Chairman **St Germain**. Without objection, we will be submitting additional questions in writing for the record.

Mr. **Gould**. Yes, sir.

[The following are written questions with attached responses submitted by Secretary Gould for the record:]

April 29, 1986

Estimating the Size of the Market for Problem Thrifts

Question

How much capital is available from potential acquirers of problem thrifts?

Answer

We estimate $1-2 billion. It is virtually impossible to calculate a precise number because of uncertainties as to many factors. These factors include what types of firms would be willing to buy failed or failing thrifts under varying circumstances, how much capital they would be willing to commit, what regulatory barriers (for example, on securities firms) prevent acquisitions, and what regulatory incentives (for example, to enhance the interstate franchise value) induce acquisitions.

The following sections describe: (1) the market for problem thrifts, (2) regulatory barriers that are reducing demand, (3) Treasury recommendations to reduce regulatory barriers, and (4) conclusions.

1. The Market for Problem Thrifts

Potential acquirers include banks, bank holding companies (BHCs), thrifts, diversified and nondiversified savings and loan holding companies (SLHCs), securities firms, life insurance companies, manufacturers, real estate builders and developers, foreign firms and private investors. Their purposes include increasing market share, diversifying their financial services product base, turning the thrift around and reselling it for a profit, and expanding interstate.

Interstate expansion has been a particularly strong inducement to acquiring problem institutions. FSLIC staff estimate that there has been a 5-8 percent discount on the amount of cash FSLIC must pay to entities that assume liabilities of problem thrifts in interstate acquisitions. In addition, a recent article in the FHLBB's Outlook (Jan. 1986, p. 22) estimates that interstate mergers in 1981 and 1982 saved FSLIC 60 percent of the cost of resolving the same cases through intrastate arrangements. From 1981, when the FHLBB approved the first FSLIC-assisted interstate merger, through 1985, FSLIC has used the interstate approach to solve 33 of 168 cases.

The Federal Home Loan Bank Board's (FHLBB) current list of bidders includes approximately 200 BHCs, 200 thrifts, and a number of other firms and individuals including SLHCs and groups of private investors. In choosing which bidders to add to the list, the FHLBB considers the bidder's size, net worth, and whether it has (or as a result of the acquisition could have) any supervisory problems. The acquiring institution's primary regulator determines whether the institution is healthy enough to manage the acquisition without difficulty.

a. Banks and BHCs

Bank holding companies are a potentially significant source of demand, as suggested by the 200 BHCs on the FHLBB's bidders list. BHCs are interested in problem thrifts for several reasons. First, they can enter new geographic markets for deposits (although the Garn-St Germain Act imposes McFadden-type limits on the acquired thrift's ability to branch). Second, BHCs are interested in acquiring individual thrifts because of their capacity to offer a range of consumer and commercial loans and to raise deposits on a cost-effective basis. Thrifts, in comparison to banks, have relatively attractive cost structures for both the origination of mortgages and unsecured commercial loans and for gathering consumer investment-type deposits. The markets for such products are large and growing. Third, in general thrifts have significant advantages over commercial banks in terms of accounting treatment, capital requirements, product and service authority, FHLBB advances, geographic limitations, and possible affiliation with securities firms. Thus far, however, regulators have limited the ability of BHCs to take advantage of these regulations. Finally, thrifts that are returned to health may be resold for profit.

One would expect the money center BHCs in New York, Illinois and California to be the most interested in acquiring problem thrifts because they have been excluded from regional interstate banking compacts. As discussed below, however, financial problems in the banking industry and burdensome regulatory restrictions have limited this demand somewhat.

Citicorp, Chase, Hibernia and Mellon are examples of BHCs that already have made emergency thrift acquisitions. Citicorp's acquisitions in California, Illinois and Florida have given it access to three lucrative interstate banking markets and enabled the country's largest BHC to become the eighth largest SLHC. It recently acquired two other problem thrifts in Utah and Nevada. Chase's acquisitions in Ohio and Maryland, although not FSLIC cases, also have enabled it to penetrate valuable interstate markets. Chase subsequently converted these thrifts into commercial banks under special legislation in both states. In addition, Mellon is in the process of acquiring a Maryland insured thrift, Community Savings and Loan, which it intends to convert to a bank. Hibernia has received FHLBB approval to acquire United Savings Bank of San Francisco in an intrastate transaction.

b. Thrifts and SLHCs

Demand from thrifts and SLHCs to purchase ailing thrifts also could make a difference to FSLIC's costs if the regulatory climate were more favorable. Diversified SLHCs like Ford Motor Co. and Household International could increase market share and avoid restrictions on geographic expansion without having to conform to activities restrictions applicable to multiple SLHCs and operational restrictions imposed by the FRB. Nondiversified, multistate SLHCs like Glendale, Goldome and Crossland similarly could increase market share.

Thrifts themselves are interested in acquiring failing thrifts, but there is not a lot of excess net worth in the S&L industry to make such acquisitions. Two notable exceptions are Great Western and Home Federal in California. Because they have not yet purchased any failed thrifts and thus are not burdened with problem assets from such acquisitions, they are in a good position to use problem thrifts as a vehicle for expansion into interstate markets. The FHLBB's recent effort to link acquisitions of healthy and ailing thrifts should have a positive effect on demand from all sources.

c. Securities and Insurance Firms

The securities and life insurance industries could be a major source of capital to the thrift industry. Diversified financial service firms, like Sears, Merrill Lynch, Prudential-Bache, Equitable Life and John Hancock that own securities underwriting units have expressed strong interest in acquiring troubled thrifts as a vehicle to offer banking services and to expand interstate. As will be discussed under "Regulatory Barriers that are Reducing Demand", past FHLBB policy opposing such acquisitions has diminished their interest in such acquisitions.

Sears is a good example of how a thrift and a securities firm can be operated successfully within a holding company structure. Since 1958 Sears has owned Sears Savings Bank, whose current capital of $248 million is 3.49 percent of assets. Sears' ownership of Dean Witter for the last several years has led to no apparent problems.

d. Nonfinancial Firms

Automobile makers are a recent example of manufacturing industry interest in failing thrifts. On December 16, 1985, Ford Motor Credit Corp., a subsidiary of Ford Motor Co., completed the purchase of First Nationwide Financial Corp., owner of First Nationwide Savings, the national's ninth largest thrift, from National Intergroup Inc. Seeking to limit their vulnerability to economic downturns, the Big Three automakers have spent about $1.5 billion on financial services companies, including a consumer finance business, an equipment leasing firm, two mortgage servicing operations, and Ford's S&L. In Ford's case, synergies between auto financing and housing financing were important factors. Ford saw funding opportunities to buy auto receivables at shorter maturities than mortgage loans, enabling them to match liabilities more closely. Other benefits include shared customer bases and the prospect of cross-selling. The fact that Ford now owns one thrift does not, of course, preclude further acquisitions.

GM and Chrysler also appear to be moving quickly into the financial services market and may be interested in acquiring a thrift as well. GMAC recently bought Norwest Corp.'s Norwest Mortgages and Corestates Financial Corp.'s Colonial group of mortgage servicing companies. Chrysler Financial Corp. recently purchased E.F. Hutton Credit Co. and BankAmerica Corp.'s Finance America units.

A number of other large companies are taking steps in this direction. For example, American Can recently acquired a New Jersey mortgage bank to further its financial services strategy.

2. Regulatory Barriers that are Reducing Demand

A number of legal restrictions and regulatory policies are reducing the demand for problem thrifts, which in turn is diminishing FSLIC's ability to resolve problem cases on a least-cost, permanent basis. These restrictions include:

a. FHLBB Opposition to Acquisitions by Securities Firms

Since 1983 the FHLBB as a matter of policy has not allowed securities firms to acquire thrifts -- including problem thrifts. It appears, however, that the FHLBB may be taking steps to liberalize this policy. Its staff recently permitted John Hancock Life Insurance Co., which owns two small securities firms (Tucker, Anthony & R. L. Day, and Sutro & Co.) to bid for Buckeye Savings and Loan in Ohio on the condition that it create a Chinese wall between its securities affiliates and the acquired thrift. This may indicate that the FHLBB is prepared to approve acquisitions by insurance companies with securities affiliates if their underwriting and market-making activities are sufficiently limited and they separate their securities and thrift businesses.

We think it could be very useful if the FHLBB published its current policy on acquisitions by securities firms. A number of large firms with securities affiliates could be potential bidders but for the FHLBB's past policy and the uncertainity over its current policy. For example, because of Sears' Dean

Witter affiliate the FHLBB has prevented Sears from bidding on ailing thrifts. Some large insurance firms with securities affiliates also could become more interested if their status as eligible bidders were clarified, particularly if other regulatory incentives were created to encourage demand. Inasmuch as these financial firms could be a major source of capital to problem thrifts, we believe it is important to try to accommodate them.

b. FRB Restrictions on Tandem Operations

Among the commitments and conditions the Federal Reserve Board (FRB) routinely requires of BHC aquirers are limitations on activities and tandem operations. The thrift's activities must be limited to activities permitted to federal S&Ls at the time of acquisition and activities authorized for BHCs. The tandem restrictions prohibit the BHC and its subsidiaries from soliciting deposits on loans for the thrift (and vice versa) and engaging in joint marketing or other relationships between the thrift and other subsidiaries. They also require FRB approval of all financial transactions between the thrift and the BHC's other subsidiaries. These restrictions derived in large part from a need to accommodate local interests at the time of acquisition, before deposit rate ceilings and regional banking compacts became prevalent.

Citicorp and other BHCs believe the tandem restrictions are the primary reasons why BHCs have been reluctant to acquire problem thrifts. They argue that these restrictions deprive the acquired S&Ls of all the advantages that are naturally provided to subsidiaries by the BHC structure and hinder efforts to return the failed S&Ls to early profitability and vigorous competition. The effect of the tandem restrictions, they say, has been to inhibit the sharing of BHC financial, management and data processing resources as well as preventing the implementation of cooperative marketing efforts with other corporate subsidiaries and affiliates. The restrictions on the thrift are greater than on a bank owned by a BHC. Neither sharing of resources nor cooperative marketing is prohibited under existing BHC law for non-thrift BHCs. These BHCs also point out that joint marketing activities are commonplace for non-BHCs (e.g., Sears Savings branches operate in retail stores; Ford Motor Co. finances auto sales through First Nationwide Savings; and Merrill Lynch sells bank CDs in its brokerage offices). They conclude that these provisions have a chilling effect on FSLIC's ability to use the emergency provisions of the Garn-St Germain Act to recapitalize the thrift industry.

BHCs are a potentially huge market for ailing thrifts. To cite one example, Citicorp's initial infusions in California, Illinois, and Florida problem thrifts, together with expected additional net worth maintenance based on ten-year viability projections, total $692 million. Removing tandem and other regulatory barriers to acquisitions by BHCs could make a big difference in FSLIC's cost of resolving problem institutions.

c. FHLBB Restrictions on Geographic Expansion

While federal law provides that thrifts qualifying under section 7701(a)(19) of the Internal Revenue Code may branch across state lines, the FHLBB as a matter of policy has permitted such branching only for thrifts willing to acquire failing thrifts under the Garn-St Germain Act. Furthermore, the Garn-St Germain Act imposes McFadden-type limitations on problem thrifts acquired by BHCs; interstate branching is prohibited except to the extent it existed prior to the acquisition.

Although the ability to cross state lines has been one of the key inducements the FHLBB has used since 1981 to entice both banks and thrifts to acquire problem cases, regional banking compacts have reduced the value of acquiring a troubled institution for that purpose. Last summer the Supreme Court upheld the legality of regional compacts. Northeast Bancorp, Inc. v. Board of Governors, No. 84-363 (June 10, 1984).

But these regional agreements have exluded banks located in money center states such as New York and California, which, at least arguably, have the most interest in and ability to acquire problem thrifts. Citicorp has used the failed thrift vehicle to gain entry into California, Illinois and Florida. Chase has used it to acquire problem thrifts in Maryland and Ohio following the collapse of the state insurance system in those states. Several other money center BHCs, including Chemical and Security Pacific, have expressed an interest in acquiring problem thrifts.

The FHLBB is becoming more aggressive in allowing the interstate option. On April 24, 1986, it adopted an amendment to its statement of policy on branching allowing any federal S&L that acquires a failed thrift to expand into three or possibly more states (not necessarily contiguous) in addition to the state in which the failed thrift is located, provided there is a showing of reasonableness and very substantial benefit to FSLIC. The amendment also gives federal thrifts the same interstate branching and acquisition rights that regional banking compacts permit state thrifts located in the federal thrift's home state. In addition, the FHLBB proposed providing general equality of federal thrifts with state-chartered financial institutions, including banks, or their holding companies with respect to branching and acquisitions. In a separate action, the FHLBB amended its policy statement to allow limited interstate branching for federal thrifts headquartered in Maryland, Virginia and the District of Columbia.

On March 31, 1986, the FHLBB approved an interstate acquisition of a healthy thrift by another thrift on the condition that the acquiring thrift agree to buy two troubled thrifts in its home state. Great American First Savings Bank of San Diego will buy Home Federal Savings & Loan Association, a healthy Tucson, Arizona thrift with $2.4 billion in assets. In exchange, Great American, which has assets of $8.2 billion, has agreed to buy two troubled California thrifts that have assets of $71.9 million.

d. FHLBB Limitations on Class of Thrifts Eligible for Interstate/Interindustry Acquisition

Chemical New York Corporation has urged that the FHLBB relax its administrative policies to permit emergency acquisition under the Garn-St Germain Act of "any thrift eligible for assistance under the net worth certificate program," i.e., to the full extent of existing law. In the past, it says, the FHLBB has allowed large BHCs to acquire institutions that are "terminally ill" as a result of asset quality problems but not institutions that are merely troubled by chronic operating deficits inherent in the pricing of their assets and liabilities. While the former may have zero or negative franchise value to a potential buyer, the latter still have both liquidation and franchise values when sold as going concerns. Chemical believes recapitalization requirements of this latter group are likely to be moderate and recouped fairly quickly as the franchise is enhanced. Such value would be reflected in the purchase price. By permitting these thrifts to be sold to banks under the emergency acquisition program, the FHLBB could reduce its current and future assistance requirements and make these resources available to institutions with no prospect of becoming viable.

In addition to urging a more lenient regulatory policy, Chemical has suggested that it may be appropriate to expand the statutory criteria for institutions eligible for emergency acquisition. Such an expanded definition may be needed to accommodate institutions that currently do not qualify for emergency acquisition but are expected to become FSLIC cases in the future. Under the current test, an institution must meet several criteria, including net worth of less than 3 percent and losses during the two previous quarters. Chemical suggests that the test some are proposing for commercial banks also may be appropriate for thrifts. In general, under this test a bank would be in danger of closing, and thus eligible for emergency acquisition, if (1) it is not likely to be able to meet the demands of its depositors or pay its obligations in the normal course and there is no reasonable prospect for it to do so without federal assistance, (2) it has incurred or is likely to incur losses that will deplete all or substantially all of its capital and there is no reasonable prospect for replenishment of the bank's capital without federal assistance, or (3) other grounds exist or are likely to exist under applicable state law for closing the bank.

FSLIC has indicated that the FHLBB's approach to emergency acquisitions is to be flexible on a case by case basis. FHLBB has no policy against allowing acquisition of any institution that qualifies under the Garn-St Germain Act. Nevertheless, FHLBB is concerned about "cherry picking". It wants to encourage as many acquisitions of the largest and most troubled institutions as possible, in addition to acquisitions of smaller, less troubled institutions that may have greater appeal to prospective buyers.

e. Effective Date of Special Rules under the President's Tax Reform Proposals

Special rules enacted in 1981 permit the acquisition of a financially troubled thrift to qualify as a tax-free reorganization without regard to certain requirements generally applicable in other reorganizations. Qualifying as a tax-free reorganization allows the acquiring corporation to succeed to the tax attributes of the failing thrift. In addition to the special reorganization rules, an exclusion from income is provided for payments by FSLIC in connection with a reorganization.

Section 804 of H.R. 3838 would repeal these special rules effective January 1, 1986. The President's tax reform proposals recommended that repeal of these special rules be delayed until January 1, 1991. The delayed effective date was proposed because the thrift industry has not fully recovered from the economic difficulties which prompted Congress to enact the special rules in 1981.

f. Intrastate/Intraindustry Priorities

The FSLIC may solicit offers from any prospective purchasers that it believes are capable and qualified. If the lowest acceptable offer is not from an in-state insured institution or in-state SLHC, the FSLIC must solicit new offers from each offerer whose bid was within $15,000,000 or 15% of the initial lowest acceptable offer, whichever is less.

FSLIC must consider minimizing the cost of financial assistance and maintaining specialized depository institutions. It must give priority in the following sequence:

- same depository type, same state
- same depository type, different states
- different depository type, same state
- different depository types, different states.

Acquisition of a minority-controlled institution by another minority-controlled institution is to be given priority before utilizing the above sequence. FSLIC must give adjoining states priority when comparing bids from different states.

3. Treasury Recommendations to Reduce Regulatory Barriers

The FSLIC estimates that in 1985 mergers and acquisitions cost it approximately 7 percent of a problem institution's assets. Liquidations during 1985 cost approximately 29.3 percent of an institution's assets. When no acquirers can be found, the FHLBB has no alternative but to ultimately close a failed institution. Thus, it is clear that by enhancing franchise values of problem thrifts and expanding the class of potential acquirers, FSLIC could save substantial reserves by inducing the private sector to inject capital through mergers and acquisitions.

To enhance the franchise value of problem thrifts and broaden the class of potential acquirers, the Treasury Department proposes that Congress, the FHLBB and the FRB take the following steps:

- Permit securities firms, or at least their holding company affiliates, to acquire problem thrifts.

- Remove tandem restrictions and other limitations imposed by the FRB on activities of thrifts acquired by BHCs. In particular, the FRB's restrictions on cross-marketing create an unnecessary and costly handicap.

- Liberalize geographic restrictions.

- Broaden the class of thrifts eligible for interstate/interindustry acquisition, without ignoring the weakest.

- Enact a January 1, 1991 effective date for the tax reform changes affecting thrift acquisitions and FSLIC assistance.

- Liberalize the bidding priorities under the Garn-St Germain Act.

4. Conclusion

Which firms might be interested in making a thrift acquisition is clearly conjectural. How much such a firm might be willing to invest depends on the attractiveness of the acquisition, the terms of the deal, and the regulatory environment. We can at least conclude, however, that a number of firms with substantial resources are seriously interested in acquiring problem thrifts under the right circumstances. To take just one case, Citicorp's estimated infusions to maintain the net worth of the three problem thrifts it acquired will come to almost $700 million.

Several of these firms -- for example, Sears, Citicorp, Chase, Chemical, some industrial companies, Merrill Lynch, Prudential, Equitable and John Hancock -- have the interest and the capacity to make a sizeable difference in the cost to FSLIC of resolving problem cases if they are not deterred by regulatory restrictions.

April 29, 1986

Basic Financial Service Accounts

Question

What is the Administration's position on Representative Oakar's proposed Financial Services Access Act?

Answer

The Administration strongly favors encouraging depository institutions to compete with each other through enhanced consumer services, such as offering accounts that attract low-income elderly and young depositors. Attracting those depositors might bring the institutions more business in the future. However, we oppose legislation that requires an institution or the federal government to provide a subsidy for an account.

Representative Oakar's bill would require institutions to offer a basic financial services account which, among other things, would have a maximum balance of $1000 but no minimum balance requirement, would permit no more than ten transactions per month and would earn interest. The Federal Reserve Board estimates that a non-interest earning transaction account permitting ten transactions per month must have an average monthly balance of $500 to $600 in order for an institution to break even on the account. Since most basic financial services accounts would probably have substantially less than a $500 balance and would earn interest, a clear subsidy cost would be imposed on depository institutions.

In order to compensate institutions the bill would require the FRB to pay interest on the reserves held against these accounts. As explained below, such compensation would, at best, provide only partial compensation for such subsidized accounts.*

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* Currently banks, thrifts, and credit unions must maintain reserves in the ratio of three percent for that portion of their total transaction accounts of $31.7 million or less and in the ratio of twelve percent for that portion of their total transaction accounts in excess of $31.7 million. The FRB can adjust the current 12 percent ratio as it sees fit, but the ratio may not be greater than 14 percent or less than 8 percent.

Paying interest on reserves would at best give the institutions that maintain reserves only a partial subsidy for offering the basic financial services account. This is so because (1) the reserves would be a small percentage of these already small accounts, (2) the rate of interest to be earned on reserves deposited in Federal Reserve Banks most likely would be less than the institution could earn if the reserves were invested in loans, and (3) the administrative cost of determining what reserves qualified could be significant relative to the possible interest earnings.

In the past, the FRB has stated that it is opposed to paying interest on only a portion of the reserves it holds because of the technical problems this would present. In addition, each dollar of interest paid on reserves would be one dollar less that the FRB would pay to the Treasury. In 1985, the FRB paid the Treasury $16.3 billion, their net income for the year. Considering the current budget situation, we would not want to reduce the FRB's payments to Treasury by any significant amount.

Chairman St Germain. The subcommittee will be in recess to the call of the Chair.

Mr. Gould. Thank you very much.

[Whereupon, the subcommittee adjourned, subject to the call of the Chair.]

[Letter of invitation to Secretary Gould follows:]

FERNAND J. ST GERMAIN, RHODE ISLAND, CHAIRMAN

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U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
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March 11, 1986

Honorable George D. Gould
Under Secretary for Finance
Department of the Treasury
15th Street and Pennsylvania Ave., N.W.
Washington, D.C. 20220

Dear Mr. Gould:

To assist this Subcommittee in the discharge of its responsibilities, you are requested to appear before the Subcommittee on Thursday, March 20, 1986, in Room 2128 Rayburn House Office Building, at 10:00 am, to provide testimony on the condition of depository institutions insured by the Federal Deposit Insurance Corporation. You are specifically asked to testify on the following matters of concern to the Subcommittee.

1. In terms as precise as your resources permit, what is the nature and magnitude of bank difficulties in:

(a) agricultural lending,
(b) energy lending, and
(c) lending to less developed nations?

2. Are there any changes in existing law or regulation affecting bank capital requirements or accounting practices that should, in your judgment be implemented to ameliorate conditions in the farm, energy, and developing nation lending areas?

In accordance with Committee Rules, please deliver 175 copies of your prepared statement to Room B303 Rayburn House Office Building twenty-four hours in advance of your scheduled appearance. Your statement in its entirety will be included in the hearing record and, if delivered as requested, the statement will be made available to all Subcommittee Members in advance of the hearing. To provide all Subcommittee Members with sufficient time for questioning, the oral presentation of your prepared statement must be limited to fifteen minutes.

Sincerely,

Fernand J. St Germain
Chairman

FJStG:dDv

FINANCIAL CONDITION OF THE BANK AND THRIFT INDUSTRIES

WEDNESDAY, APRIL 9, 1986

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE,
COMMITTEE ON BANKING FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room 2128 of the Rayburn House Office Building, Hon. Fernand J. St Germain (chairman of the subcommittee) presiding.

Present: Chairman St Germain, Representatives Annunzio, Hubbard, Barnard, LaFalce, Schumer, Cooper, Wylie, McKinney, Shumway, Wortley, Dreier, Parris, Roukema, Bereuter, Bartlett, and Roth.

Chairman ST GERMAIN. The subcommittee will come to order.

This morning we hear from three Federal bank supervisory agencies that have been struggling with plans to assist ailing sectors of the financial industry.

Everything from souping up accounting statements and pegging oil prices to sweetening the pot for interstate acquisitions has been run up the flagpole in recent weeks. For an industry and an administration that speak in such pure terms about the free market, the exercise has certainly been instructive.

Today, banking policy is based essentially on a single criteria—How much will it cost the insurance funds? Whether this single-minded approach to national policy is good for the Nation over the long term is a question that is not likely to be given much time so long as the bailout buckets are being manned with such vigor.

Whatever we ultimately decide to do, I hope we will be open and frank with the American public. We do not want to call a Federal bank assistance program by some other name any more than this administration wants to call the Food Stamp Program by any other name but welfare.

But, as some of us have argued on housing and urban programs, Government assistance has its place, free market economics notwithstanding. So, I hope you gentlemen, who I understand frequent the White House from time to time, will drop a good word about Government assistance in the proper place.

Apparently, in hopes of separating themselves from other Government assistance programs, some regulators have been quoted in the media as suggesting that they have some special niche, presumably exempt from normal criteria and controls, because their income is derived from fees. The concept that agencies that derive funds from user fees should be islands outside of controls applied to other Government entities may indicate more arrogance than an understanding of the public interest. Especially for agencies whose guarantee of the full faith and credit of the U.S. Government is dependent upon congressional appropriations, the U.S. Treasury and the American taxpayer. And above all, let's remember that the fees themselves come from the public, the customers of the banks. At least that is what the banks tell us when anyone suggests an increase in the assessment.

Some of the problems which the regulators are struggling with stem from lower oil prices. These lower prices are a boon to consumers nationwide and have begun to spur new economic activity in many sectors. Apparently, banks in Texas and other areas of the Southwest who rode high when the Arabs forced prices up, are now being hurt while other regions are prospering from the lower prices.

The banking industry in the oil-producing regions now wants relief, adjustments, restructuring, or assistance by whatever name. Those of us with constituents who were freezing while trying to pay for heating oil at $1.50 per gallon a few years ago well understand the need for assistance, adjustment, or help by any name when oil prices gyrate in the marketplace.

But, I must add, we got very little help, in fact, none, from this administration when we sought assistance for our people at a time when the prices were going in the other direction and these very same banks were raking in the high profits from oil loans. And at a time when Texans were driving around proudly with bumper stickers reading, and I quote, "Drive 90 and Freeze a Yankee." [Laughter.]

While the administration clearly is selective in who it wants to help, I hope that this committee and the Congress will take a broader view. This is not a time for knee-jerk ideological approaches, tempting though it might be to hand the banks and the administration back some of their patent medicine from the free marketplace shelf.

The answers we come up with, I hope, will face the realities of the national economy. I do hope we will label them properly, not flimflam the public about the true nature of Government assistance in this era of Gramm-Rudman.

If the Federal Government is to take on an even bigger role in bank assistance programs, it is encumbent on the Congress to make certain that benefits—at least some of them—flow to consumers—customers of banking institutions.

It may well be one thing to structure a program that saves the stockholders, the management and the big depositor and quite another to develop assistance which aids the farmer, the energy user and the consumer.

Perhaps we should make certain that any banks aided under these programs are truly institutions that serve the public that will foot the ultimate bill.

Mr. Wylie, would you like to make a statement before we go to answer that first vote?

Mr. **Wylie**. Yes, I think I can get mine in before we have to go.

Chairman **St Germain**. Mr. Wylie.

Mr. **Wylie**. Thank you very much, Mr. Chairman.

I would like to welcome our distinguished panel of witnesses this morning, noting that for Chairman Seidman and Comptroller Clarke, this is a first appearance before the House Banking Committee, at least in their present capacities, while for Vice Chairman Martin, it could be a last appearance, at least as Vice Chairman of the Federal Reserve Board.

Mr. Chairman, I would like to take a little different approach as we listen to our witnesses here this morning. I think it is important for us to continue our review of the condition of the banking industry. Obvious serious strains on our commercial banks have been created by the difficulties in the agriculture, energy, real estate, and foreign lending areas. And the written statements of our three very distinguished witnesses this morning present a fairly complete picture of developments in these areas. Importantly, I think they put the problem in perspective.

While there are serious problems, the regulators have taken steps to address them and the great majority of banks are healthy, I am pleased to say. The bottom line is that the system as a whole appears to be fundamentally sound.

It would seem, however, that some enhancements of legislative authority are needed, as Secretary Baker put it. We must act in a timely fashion to extend the provisions of the Garn-St Germain Act, which expire next Tuesday.

As we pass the short-term extension, I hope that our staffs can work with the regulators to develop a consensus measure providing necessary legislative enhancements.

And finally, Mr. Chairman, I would like to take a moment to give public recognition to Preston Martin's 4 years of distinguished service as Vice Chairman of the Federal Reserve. Preston Martin has served on the Board with distinction. As Vice Chairman, it seems to me that you brought a valuable expertise to the Federal Reserve Board and as the former Chairman of the Federal Home Loan Bank Board and a successful businessman, your knowledge and expertise helped us and are such that I have a feeling that we will be seeing you again in some capacity.

In any event, may I wish you well in your new future endeavors, Mr. Vice Chairman.

Thank you, Mr. Chairman.

Chairman **St Germain**. Prior to recessing for the vote, which we will do in a moment, I, too, want to welcome both Mr. Seidman and Mr. Clarke for their initial flights before this subcommittee.

And as to Preston Martin, a member of the Federal Reserve Board of Governors; well we have seen him before us with two hats. In the interim, between the first hat and the second hat that he now wears, he went off and did quite well, and for that, we congratulate him. We are very happy for him. He did all right in the marketplace.

Now, we have had our disagreements, particularly most recently on delayed funds availability. But, nonetheless, our repartees have been helpful and meaningful and Governor Martin has always sat before us and expounded on, and explained his views with clarity. We commend him.

It is like attorneys. I happen to be an attorney. There's nothing you like more than to be in a courtroom with an attorney on the other side of the case that's a sharp cookie. It is all the more interesting.

So we have benefited from your expertise, your testimony and our colloquies. And I would certainly like to join Chalmers—I don't know why I let him do it first, because he then could have joined me—in wishing you well. I hope you do as well this time as you did the last time. [Laughter.]

Now we are going to let you relax and sit back while we cast a vote. When we come back, we will proceed with the testimony.

The subcommittee will be in recess for approximately 5 minutes.

[Recess.]

Chairman ST GERMAIN. At this point, we will now place your statements in the record, all three in their entirety, and we will begin with the practiced fellow with a lot of background and experience before the subcommittee, Governor Martin.

Governor Martin, you are recognized. Better make sure we hit that microphone. There you go.

STATEMENT OF HON. PRESTON MARTIN, VICE CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. MARTIN. Thank you, Mr. Chairman, members of the subcommittee.

Chairman ST GERMAIN. We are going to have to ask you to embrace that microphone. The mikes in this committee room like tender loving care and closeness.

Mr. MARTIN. Aye, aye, sir.

Chairman ST GERMAIN. You got it.

Mr. MARTIN. I'm saluting the bridge, although I wasn't piped aboard. I guess I was, really.

Chairman ST GERMAIN. I thought we piped you well before we left for the recess. [Laughter.]

Mr. MARTIN. I appreciate the opportunity to discuss the difficulties that some banks are facing as a result of farm, energy, and developing country loans. I also plan to offer a few remarks on the commercial real estate situation.

The banking system today continues to deal with a series of adjustments to changing economic conditions and to contractions in specific industries and geographic regions, and to, in some cases, some inadequate loan quality control.

As a result, substantial volumes of loans have had to be written off. Loan loss reserves have been augmented substantially, and a number of banks are experiencing still significant financial strains.

The fundamental strength of the banking industry, however, is demonstrated to me by an increase in net earnings last year of about 17 percent, a boost in the ratio of primary capital to assets—and this marks the 5th consecutive yearly rise in that important ratio.

In short, the banking industry shows some robust signs. These positive factors should be kept in mind as one looks at the more troubling areas such as farm, energy, and developing country commercial real estate loans.

May I begin with the farm sector?

The current problems affecting the agricultural sector are more serious, as we all know, than any encountered since the Great Depression. These problems have been brought on by the worldwide increase in agricultural production, which has driven down crop prices and, with them, farm incomes and asset values. The relatively high interest rates that have prevailed over the current decade have compounded the problems.

Several recent developments should aid the farm economy, including the dramatic fall in energy costs and substantial declines in interest rates and in the exchange value of the dollar. The recent farm bill also offers an additional source of support for farm income. However, supply conditions for farm products suggest that a substantial rebound in crop prices and thus in farm incomes is not likely to take place over the foreseeable future.

The recent problems in the farm economy have inevitably been transmitted to many of the farm banks. At yearend 1985, nonperforming loans numbered close to 5 percent of gross loans at agricultural banks, versus about 3 percent in nonagricultural banks. Likewise, agricultural banks dominate the ranks of the problem institutions. That is to say, banks which are rated 4 or 5 by examiners. Agricultural banks are also over represented in the failure category. In 1985, 62 of 120 failed banks were classified as farm banks. In 1986, a similar pace has continued—9 out of 21 failed banks, as of March 25, were farm banks.

The effect of these problems at the local level has been damaging. For example, of the 62 farm banks that failed in 1985, 43 of these were the only bank in the community.

Having reviewed the negative side of the farm bank situation, I would like to touch on the positive side to provide a balanced perspective. Over 95 percent of the total loans at agricultural banks are performing, and one-half of these banks reported earnings equal to 10 percent or more of equity. Also, agricultural banks generally have a substantial capital cushion to absorb loan losses. In fact, the capital-to-assets ratio for all agricultural banks averaged almost 10 percent in September of last year, well above the 7½ percent ratio for the entire banking system.

Now turning to the energy sector.

In addition to problems in the farm sector, conditions in the energy industry have created serious strains on banking organizations, particularly those located in the Southwestern States. In 1984, 11 banks failed in Texas and Oklahoma, States as we know with a considerable number of energy lenders. And last year, 1985, this number doubled. The pressures on lenders also have increased since yearend due to the further sharp declines in oil prices and gas prices.

What is especially troublesome, moreover, is that many banks in energy-producing areas or with heavy energy exposure are also experiencing strains from loans to troubled real estate and agricultural borrowers and, in some cases, are exposed to foreign countries that, in turn, are heavily dependent on the production and export of oil.

Let me review the actions to provide assistance, Mr. Chairman. The Federal Reserve, in February of this year, renewed in a modified form its seasonal credit program for ag banks. In addition, the banking agencies in March issued a joint statement on policies to assist basically sound, well-managed farm banks to weather this period of economic adversity. The Federal Reserve and the other banking agencies here represented have agreed to follow these policies in supervising energy banks as well.

Despite the assistance provided by these policies, some banking organizations, including possibly some sizable community banks and some sizable regional institutions, may continue to experience severe and prolonged financial stress. For this reason, our Board would encourage modification of the provisions of Garn-St Germain that prohibit acquisitions of failed banks across State lines before an actual failure occurs and those provisos that prohibit acquisitions of failed banks with assets under $500 million.

In addition, the Board believes the acquirer of a failing bank should be permitted to purchase the holding company that owns the bank and other affiliates within a holding company system.

Now as to commercial real estate.

Another sector of the economy that bears close watching is commercial real estate and, in particular, the office building market. In many areas of the country, the supply of newly constructed office buildings has greatly exceeded the demand, and this has translated into extremely high vacancy rates. This is especially troublesome in cities such as Houston and Dallas, where the difficulties to the energy industry are compounding the strains of those already overbuilt markets.

As to international lending, loans to foreign borrowers have attracted considerable attention since several countries in 1982 were unable to continue servicing their external debts as they were initially originated. While problems in international lending remain, the environment has clearly changed, and most U.S. banks appear better prepared now to handle these problems than they have been in many years.

Since 1982, the banking industry has substantially increased total capital funds, while total claims of United States banks on Latin American borrowers have virtually stabilized. And this has been particularly true the last 3 years.

A second encouraging factor is that both the banks and the debtor nations have generally addressed payment problems in a reasonable and nonconfrontational manner. The Baker initiative, which combines additional private sector and additional World Bank lending with structural reforms within the debtor countries, represents a sound approach to resolving many payment problems. And there is the recent decision by the IMF to work with the World Bank in providing $3 billion or more of new financing to the least developed countries.

Finally, declining oil prices have improved the economic outlook for Brazil and other heavily indebted countries, and declining interest rates have generally had a beneficial effect on many of the developed countries, if not all of them.

Mr. Chairman, I must also stress that weaknesses in this sector remain. The continuing fall in oil prices has severely disadvantaged Mexico, Nigeria, and other oil-exporting nations. The full effects of the trend have not yet been felt.

This leads to a comment in strengthened supervision. We can agree that the difficulties in banking underscore the need for a strong supervisory framework.

At the Fed, we have taken a number of initiatives to improve our supervision of banks and bankholding companies. First, we recently announced intensified schedules for the examination and inspection of banks and bankholding companies. Second, we formalized and strengthened the process of communicating examination and inspection findings to the boards of directors of banking organizations, knowing that they have got to cleanup their own houses and that improvement starts with self-regulation at the board of directors and the management level. Third, in the area of capital adequacy, in January of this year, we announced a proposal to supplement the existing capital requirements with an adjusted capital measure that, among other things, would take into account the risks associated with off-balance sheet banking activities and commitments. In addition, we issued guidelines on bank and bankholding company dividend policies to ensure that such policies do not weaken an organization's financial position.

In summary, Mr. Chairman, the banking industry as a whole has demonstrated an ability to withstand the financial pressures and the volatility of the last several years. Progress has been made over these years in encouraging banking organizations to increase their capital. This has contributed significantly to their ability to withstand the periods of uncertainty and adversity.

As I have just reviewed, however, we recognize significant problems continue to trouble certain sectors of our economy. The strains on some banking organizations warrant close supervision by banking agencies and action by Congress to strengthen the ability to deal with the points of stress that remain.

In the longer term, the prospects of lower inflation and lower interest rates and of improved economic performance generally augur well for the future health and stability of our banking system.

Thank you for your courtesy.

[The prepared statement of Mr. Martin follows:]

For Release on Delivery
10:00 A.M. EST
April 9, 1986

Statement by

Preston Martin

Vice Chairman, Board of Governors

of the Federal Reserve System

before the

The Subcommittee on Financial Institutions
Supervision, Regulation and Insurance

of the

Committee on Banking, Finance and Urban Affairs

House of Representatives

April 9, 1986

I appreciate the opportunity to discuss the difficulties that some banks are facing as a result of farm, energy, and developing country loans. As requested, my remarks will center on the nature and magnitude of risk exposure in each of these sectors and on appropriate measures to deal with them. I also plan to offer a few remarks on the commercial real estate situation. The Federal Reserve, in conjunction with the FDIC and OCC, is supplying the related information and statistics requested.

The banking system today continues to deal with a series of adjustments to changing economic conditions and to contractions in specific industries and geographic regions. Very substantial volumes of loans have had to be written off, loan loss reserves have been augmented, and capital resources have been built up using a variety of debt and equity instruments. In this, the banking system has exhibited an ability to adapt to changes in loan asset quality at the same time that the liability side of the balance sheet has changed under the twin forces of market developments and deregulation. In recent years, the banking system has survived numerous periods of stress and uncertainty, including the collapse of Drysdale Securities, the silver crisis, the failure of Penn Square Bank, and the near-failure of Continental Illinois. During a period of deregulation and intensified competition, the system could not have weathered these events if it were not fundamentally sound.

The strength of the industry is also demonstrated in various performance indicators. Last year, net earnings in the industry increased by roughly 17 percent. This increase was accompanied by a boost in the ratio of primary capital to assets, marking the fifth consecutive yearly rise in that important ratio. I might add that last year's improved earnings were aided by a combination of higher net interest income and noninterest income, which indicates strength in the core lending business as well as in other activities such as trading, merchant banking, and other fee generating services.

In short, the banking industry shows some robust signs. These positive factors should be kept in mind as one looks at the more troubling areas, such as farm, energy, and developing country loans.

The Farm Sector

The current problems affecting the agricultural sector are more serious than any encountered since the Great Depression. These problems have been brought on by the worldwide increase in agricultural production, which has driven down crop prices and, with them, farm incomes and asset values. While all farmers have been adversely affected by these conditions, those farmers that entered the decade with substantial debt have naturally encountered the most difficulty. Their problems have, of course, been compounded by the relatively high interest rates that have prevailed over the current decade.

Our estimates suggest that perhaps a third of the full-time family farmers are experiencing moderate to severe financial stress. This group owes about one-half of the farm debt owed by such farmers.

Several recent developments should aid the farm economy, including the dramatic fall in energy costs and the substantial declines in interest rates and in the exchange value of the dollar. The recent farm bill also offers an additional source of support for farm incomes.

However, supply conditions for farm products suggest that a substantial rebound in crop prices, and thus in farm incomes, is not likely to take place over the foreseeable future. Consequently, farmers with relatively heavy debt loads will continue to face serious difficulties.

The majority of farm debt is not in fact owed to commercial banks, but to the Farm Credit System, the Farmers Home Administration, and to individuals. About one-fourth of total farm debt is held by commercial agricultural banks, which for purposes of this testimony are defined as those banks having 25 percent or more of total loans related to agriculture.[1]

The recent problems in the farm economy have inevitably been transmitted to many of the farm banks. Such problems are manifested in data on nonperforming loans, problem banks, and failed banks, among other measures.

At year-end 1985, nonperforming loans numbered close to five percent of gross loans at agricultural banks versus about three percent at non-agricultural banks.

Likewise, agricultural banks dominate the ranks of problem banks--that is to say, banks which are low rated 4, or 5 by examiners using a scale of 1 to 5. As of February 1986, farm banks represented over 40 percent of all problem banks.

Agricultural banks are also overrepresented in terms of failures. In 1985, 67 of 120 failed banks were classified as farm banks. In 1986, a similar pace has continued; 9 of 21 failed banks, as of March 25, were farm banks. With no imminent recovery in the farm economy in sight, it is expected that farm banks will continue to account for a disproportionate number of failures.

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[1] In previous testimony the Federal Reserve Board has defined "agricultural banks" as banks with a ratio of farm loans to total loans that exceeds the average of such ratios at all banks, currently about 16 percent. The 25 percent cut-off is used in this testimony so that our definition is consistent with that used by Comptroller of the Currency and the Federal Deposit Insurance Corporation. A table showing key statistics based on both definitions is provided along with other data submitted to this Committee.

Most of the failed farm banks have been very small, and thus their failure has had less effect on the overall banking system than at the local level. The effect at the local level, however, has been damaging. For example, of the 62 farm banks that failed in 1985, 43 of these were the only bank in the community. In most cases, a merger with another banking company was arranged. However, it has become increasingly difficult to arrange takeovers of failed institutions. In 1985, no merger could be arranged for 11 failed farm banks; the depositors were paid off and the institutions were liquidated.

Having reviewed the negative side of the farm bank situation, I would like to touch on the positive side to provide a balanced perspective. Over 95 percent of the total loans at agricultural banks are performing, and one-half of these banks reported earnings equal to 10 percent or more of equity. Also, agricultural banks generally have a substantial capital cushion to absorb loan losses. In fact, the capital to assets ratio for all agricultural banks averaged 9.8 percent in September of last year, well above the 7.5 percent ratio for the entire banking system.

The Energy Sector

In addition to problems in the farm sector, conditions in the energy industry resulting in part from declining oil and gas prices have created serious strains on banking organizations, particularly those located in the Southwest. While this situation has intensified with the recent sharp drop in oil prices, problems associated with energy lending have their roots in the oil shocks and energy shortages experienced in the decade of the 1970s. The intense concern over the continued availability of energy supplies, and the inflation psychology of this earlier period led many observers, including bankers, to conclude that the price of oil and other forms of energy would continue to move upward over time. Energy based loans were seen as particularly safe and profitable.

The rapid increase in energy lending during this period is reflected in the statistics on shared national credits (SNC), which capture energy loans and commitments. A shared national credit is any loan or group of loans (including unused commitments) to one borrower that exceeds $20 million and is shared by two or more banks. The aggregate of such energy loan exposure included in SNC credits increased from $6.7 billion in 1977 to $56.9 billion in 1984. This growth, in turn, paid handsome dividends for a time for energy lenders. From 1979 to 1982 the asset growth and profitability of large bank holding companies (i.e., those with assets in excess of $1 billion) in the Southwest generally exceeded the growth and profitability of comparable companies in other regions.

But by 1982, the energy boom in the Southwest began to end. Successful conservation efforts and the back-to-back recessions of the early 1980s tempered demand for energy while new non-OPEC supply sources grew. The combined result was a reversal in the upward pressures on energy prices. Serious strains within the banking system surfaced in 1982 with the failure of the Penn Square Bank and the severe repercussions of this failure on other large banking organizations. As everyone here no doubt recalls, loans and participations purchased from Penn Square inflicted substantial losses on a number of banks and contributed to the huge loan losses and severe liquidity crisis at Continental Illinois National Bank in the period from 1982 to 1984. Energy problems also led to the closing of the First National Bank of Midland, Texas in 1983, one of the largest actual failures of a commercial bank in the United States.

In addition to signifying the emergence of serious problems within the energy sector, some of these events, to be sure, also reflected the consequences of questionable lending decisions and practices and inadequate management controls.

By 1983, the return on assets of many large banking organizations in the Southwest fell well below the levels of similar banking organizations nationwide, and the loan loss experience of heavy energy lenders significantly exceeded the experience of similarly-sized nonenergy banking organizations. While earnings of bank holding companies in the Southwest improved in 1984, last year the return on assets of these companies once again fell well below their national peers. Furthermore, the relative level of nonperforming loans in energy-oriented organizations in that region greatly exceeded national peer group averages.

Between 1982 and 1985, the aggregate volume of oil and gas credits classified under the SNC program (i.e., those larger credits of poor quality) increased from $1.2 billion, representing 2.6 percent of the capital of the SNC energy lenders, to $8.4 billion, or 9.8 percent of the capital of these energy lenders. While shared national credits do not include all energy loans in the banking system and the effects of the most recent drop in oil prices have yet to be reflected in these figures, the increases nonetheless reveal the pressures being experienced by some energy lenders.

The difficulties experienced by energy lenders since 1982 reflect the on-going adjustment process in the energy sector. As energy supplies have continued to grow relative to demand and prices have fallen, the value of oil and gas equipment and reserves has declined, and the cash flows of many borrowers have been severely reduced. This has eroded the financial strength of a considerable number of energy borrowers, forcing some into bankruptcy and preventing others from servicing their loans in accordance with the original terms and conditions. The result, as has already been noted, has been that many energy banks and institutions in the Southwest have been forced to cope with serious asset and earnings problems over the last four years. In 1984, 11 banks failed in Texas and Oklahoma, states with a considerable number of energy lenders. This number amounted to roughly 14 percent of all bank failures in that year. Last year, the number of bank failures in these states doubled to 22, or approximately 19 percent of all bank closings.

Pressures on these lenders have increased since year-end due to the further sharp declines in oil and gas prices. These developments have exacerbated the problems of many energy-related firms and energy lenders, including some sizable institutions. Many banks in energy producing areas or with heavy energy exposure are also experiencing strains from loans to troubled real estate and agricultural borrowers, and in some cases have exposure to foreign countries dependent on the production and export of oil.

A recent survey by the FDIC identified 563 federally insured banks with assets over $100 million and oil and gas loans in excess of 25 percent of total capital. The survey found that these institutions held over $61 billion in energy loans, with $57 billion (92 percent of the total) held by 59 large regional and multinational banks with assets over $1 billion. Of the smaller banks identified in the survey, over 80 percent were located in the states of Texas, Oklahoma and Louisiana.

Recognizing the problems in the energy sector, banks in the Southwest began to make significant additions to their loan loss reserves in 1982 and have continued to do so.

To improve our understanding of the financial condition of large energy lenders, the Federal Reserve, with the cooperation of the FDIC and OCC, is conducting a special energy inspection of bank holding companies with assets in excess of $500 million and significant energy exposure generally in excess of 25 percent of capital. Through these special inspections we will obtain more current information on the aggregate oil and gas exposure of these organizations, the volume of nonperforming energy loans, and the condition of their large oil and gas credits.

Mr. Chairman, the Federal Reserve, together with the other federal banking agencies, recognizes that conditions have shifted sharply and unexpectedly in both the agricultural and energy sectors of our economy. In view of the continued deterioration in agriculture, the Federal Reserve in February of this year renewed in a slightly modified form the simplified seasonal credit program for agricultural banks. This program is designed to make funds available at the discount window to agricultural banks experiencing especially strong loan demands. This change is designed to assure that agricultural banks will not face liquidity constraints in accommodating the needs of farm borrowers over the planning and production cycle.

In addition, the banking agencies in March of this year issued a joint statement on policies to assist basically sound, well managed farm banks to weather this period of economic adversity. These policies among other things:

1) Permit banks experiencing heavy losses due to external factors to operate with reduced capital levels, even if below the minimum standards set down in our supervisory guidelines, provided the banks are following prudent lending and financial practices and have the clear potential for replenishing their capital positions over a reasonable period of time;

2) Reaffirm the agencies' long-standing policies of not discouraging banks from forbearing on farm loans through appropriate debt restructurings in cases where there is a reasonable prospect that restructurings will work to the advantage of the bank as well as the borrower;

3) Refrain from requiring automatic charge-offs of debt restructurings when their terms meet the criteria of generally accepted accounting principles; and

4) Revise supervisory reporting procedures for restructured loans that are performing under the new terms in order to more accurately reflect the status of such loans and to avoid the suggestion that such loans are a component of nonperforming assets.

While these policies were initially developed in connection with our review and consideration of problems in the farm sector, the dislocations and uncertainties resulting from the recent sharp decline in energy prices have created serious pressures for some energy lenders as well. Therefore, the Federal Reserve and other federal banking agencies recognizing these pressures have agreed to follow these policies in supervising energy banks as well. For its part, the Federal Reserve Board has already instructed the Reserve Banks to conform their practices and procedures to the policies outlined in the joint statement.

I hasten to point out that none of these steps, of course, is intended to shield banks engaged in unsafe and unsound or objectionable practices from appropriate supervisory enforcement action. Rather, the intent is to adopt supervisory policies that will assist banks that are fundamentally sound and well managed, and that have taken reasonable steps to strengthen their positions and conserve their capital.

Despite the assistance provided by these policies, some banking organizations may continue to experience severe and prolonged financial stress. In order to augment flexibility to deal with the more serious cases, the Board would encourage modification of the provisions of the Garn-St Germain Act of 1982 which prohibit acquisitions of failed banks across state lines before an actual failure occurs and which also prohibit acquisitions of failed banks with assets under $500 million. The Board believes that these two constraints should be eased by allowing the across-state acquisitions of failing banks and by reducing the size of such banks that can be so acquired. In addition the Board believes that the acquirer of a failing bank should also be permitted to purchase the holding company that owns the bank and other affiliates of the bank. These modifications would help to minimize losses to the deposit insurance fund, and also help to maintain banking services in small communities.

One further means of promoting the maintenance of banking services in small communities is through the relaxation of state branching restrictions. Such an easing would enable out-of-territory banking institutions to acquire small banks when a separately organized and capitalized bank might not be viable.

Commercial Real Estate

In addition to the agricultural and energy sectors, another area that bears close watching is commercial real estate and, in particular, the office building market. In many areas of the country the supply of newly constructed office buildings has greatly exceeded the demand and this has translated into extremely high vacancy rates. In fact, the office building vacancy rate in metropolitan areas reached 20 percent at the end of last year, the highest rate in the postwar period. To put this in perspective, the previous postwar high, which occurred in the mid 70s, was 11.5 percent.

A large part of the general overbuilding in the office market has been a regional phenomenon, most prevalent in the Sunbelt states. What is especially troublesome, however, is that difficulties brought on by the decline in energy prices have greatly reduced the demand for office space in cities such as Houston and Dallas, where vacancy rates are now among the highest in the country. Thus banks that were heavily involved in financing both the Texas energy and real estate booms have been dealt a particularly severe blow. In other cities in the Sunbelt such as Fort Lauderdale and Tampa the vacancy rates exceed 25 percent and are expected to remain at high levels during 1986. Weakness in the office building market has prompted owners to offer concessionary rental rates in order to attract tenants. Nevertheless, many buildings remain vacant, or nearly vacant, and this situation has greatly increased the exposure of banks that are heavily involved in commercial real estate lending. To some extent the decline in interest rates should help to alleviate the cash flow problems of those that have borrowed heavily to finance commercial real estate.

International Lending

I would now like to turn to the banks' international activities. Loans to foreign borrowers have attracted considerable attention since 1982 when several countries were unable to continue servicing their external debts as initially contracted. Prior to 1982, U.S. and other banks had rapidly expanded their lending to many countries. For example, claims on

Latin American borrowers by U.S. banks rose from $38 billion to $84 billion during the period 1977 to 1982. However, by 1982 economic and financial conditions for many of these countries were deteriorating. Countries' debt levels and market interest rates were high; the United States and major European countries had not yet emerged from serious recessions; and commodity prices were weak. The international debt crisis began to seriously threaten bank earnings and capital and became a major concern to us all.

While problems in international lending remain, the environment has clearly changed, and most U.S. banks appear better prepared now to handle these problems than they have been in many years. Since 1982 the banking industry has substantially increased total capital funds, while total claims of U.S. banks on Latin American borrowers have tended to stabilize. Though still large, exposure relative to capital has declined significantly.

Among U.S. banks, the exposure to the heavily indebted countries is concentrated in the nine largest international lenders, which account for almost two-thirds of all loans by U.S. banks to Latin America. The exposure of most other U.S. banks is relatively small. It is especially encouraging, therefore, to note that by raising additional capital these large banks have reduced their relative exposure to Latin American countries from almost 180 percent of total capital in 1982 to about 130 percent today. It is also important to recognize that these lending relationships are long-term in nature and that U.S. and other foreign banks must continue to play important roles in financing the economic growth of these countries.

A second encouraging factor is that both the banks and the debtor nations have generally addressed payment problems in a reasonable and nonconfrontational way. Since 1982, foreign countries throughout the world have negotiated over 50 separate restructuring agreements, often by postponing principal payments while remaining current on interest. Argentina, which has received much attention in recent years because of its external debt problems, has made significant progress, and by the early part of this year had eliminated all interest arrearages on its public sector debt. Most other major debtor countries are similarly current on their public sector interest payments.

Comprehensive data on nonaccrual loans to developing countries are not available, but the amount is relatively small. One indication is the fact that one of this country's largest lenders recently reported that only about 7 percent of its loans to foreign countries that had refinanced their debt were on a nonaccruing status. This rate is significantly higher than its overall rate of nonaccruing loans, but remains a relatively small percent of its loans to countries with payment difficulties. Moreover, most of the foreign nonaccruing loans are to private sector borrowers and are due largely to commercial credit problems, rather than transfer risk problems.

The United States and other major countries have recognized the serious and long-term nature of the problems many of the major debtor countries face and have endorsed policies that, when implemented, should help these countries to regain economic health. The Baker Initiative, which combines additional private and World Bank lending with structural reforms within the debtor countries, represents a sound approach to resolving many countries' payment problems. Many countries have already adopted elements of the approach outlined by Secretary Banker. Argentina and, most recently, Brazil have undertaken major economic reforms designed to reduce their inflation, encourage local investment, and promote a more rational pattern of economic growth. Argentina's brief experience under its programs has given promise of what can ultimately be achieved. But permanent success for Argentina, Brazil and other debtor countries embarking on such programs will depend on the willingness of the industrial countries to maintain open markets for the exports of these countries as well as on the countries' ability to regain the confidence of their citizens. By merely adopting policies that stem the flight of capital and encourage the return of prior outflows, many countries could significantly reduce their external debt problems.

The recent decision by the Executive Board of the International Monetary Fund to work jointly with the World Bank in providing at least $3 billion or more of new financing to the least-developed countries should also help the economies of these poorest nations. The nominal interest rates of one-half of one percent annually should be an attractive incentive for many of these countries to enter the program and work with these organizations to implement needed reforms. Although U.S. banks have relatively little exposure to these countries, this lending facility and the IMF-World Bank coordination that it represents are helpful and encouraging developments.

Finally, declining oil prices have improved the economic outlook for Brazil and other heavily indebted countries and declining interest rates are generally having a beneficial effect on the debtor countries. With the recent decline in interest rates it is estimated that the Latin

American countries alone will save $10 billion annually in interest costs on their short-term and floating rate debt.

Mr. Chairman, despite the progress that has been made, significant difficulties remain in this sector of bank lending. The continuing fall in oil prices has severely disadvantaged Mexico and other oil exporting nations and the full effects of this trend have not yet been felt. In addition, many uncertainties surround the adjustment programs of developing countries and could threaten continued progress.

Nevertheless, recent economic reforms adopted by some countries, the lower interest rate environment, and the significant additions to bank capital provide hopeful indications that progress is being made. Recent actions by some Latin American countries to allow more foreign direct investment are also movements in the right direction and consistent with the principles embodied in the Baker plan. A number of state-owned firms have been designated for partial or complete sale. There is some additional emphasis upon measures which would stimulate the private sectors in the developing countries, thus providing for the expected need for increased employment in those areas. With continued cooperation and free trade, the debtor countries and their creditor banks should be able to avoid major problems.

Strengthened Supervision

I think we can agree that the difficulties in banking underscore the need for a strong supervisory framework. Such a framework is all the more important if we are to proceed with deregulation in the banking industry. At the Federal Reserve, we have taken a number of initiatives to improve our supervision of banks and bank holding companies. I would like to review with you a few of those initiatives.

First, we recently announced intensified schedules for the examination and inspection of banks and bank holding companies. Under the new schedule, banking organizations that are experiencing problems, as well as the largest organizations, will be examined or inspected semiannually. We have also been increasing the size of our examination staff to meet these new scheduling requirements.

Second, we recently formalized and strengthened the process of communicating examination and inspection findings to the directors of banking organizations. Senior Federal Reserve officials, including Federal Reserve Bank Presidents, will communicate these findings directly to directors of those banks and bank holding companies subject to the intensified exam schedule. In addition, a written summary of examination findings--separate from the complete examination or inspection report--will also be distributed to these directors. It is encouraging that many bank Boards of Director and Chief Executive Officers are concerning themselves with the quality of assets and with the review processes by which that quality is maintained. In many cases, a more senior officer has been given the responsibility under the Board and the CEO. More often committees made up of outside directors have been set up to monitor the working out of problem loans and assets and the processes by which the institution exercises control over their asset portfolio.

Third, in the area of capital adequacy, minimum capital requirements were adopted in 1981 in order to reverse the decline in bank and bank holding company capital ratios. Since 1981 capital ratios have shown a strong increase. The minimum capital requirements were raised in

April of last year for regional and multinational institutions, and the disparity in minimum capital requirements between large and small institutions was eliminated. In January of this year we announced a proposal to supplement the existing capital requirements with an adjusted capital measure that, among other things, would take into account the risk associated with off-balance sheet banking activities. In addition, we issued guidelines on bank and bank holding company dividend policies to ensure that such policies do not weaken an organization's financial position.

And finally, we have taken steps to expand and improve the flow of information on banking institutions in order to strengthen our capacity to monitor the financial condition of banks and bank holding companies and to detect problems at an early stage.

At this point, Mr. Chairman, I would like to address a question that has been raised frequently in connection with the ongoing debate on the tax bill as to whether the reserve method of computing the allowable tax deduction for bad debts should be repealed. The proposed repeal would of course make it more costly for banks to maintain loan loss reserves. Moreover, I argue that it would inhibit the growth of loan loss reserves by discouraging banks from maintaining reserves at levels at which they might otherwise, thereby creating some risk in terms of bank safety and soundness. From my perspective as a bank regulator, I believe measures should be taken to encourage banks to increase their loan loss reserves. Therefore, from that perspective, I would favor the retention of the existing tax treatment for loan loss reserves, or its liberalization. But I recognize, of course, that a decision on this matter must be made against the need to achieve reductions in the budget deficit.

Another matter that has received considerable attention recently is the whole issue of accounting flexibility. For example, there have been a number of proposals that would allow banks to defer over a number of years the charge-off of uncollectible loans. While I strongly endorse the ongoing efforts to improve accounting principles and practices, I would caution against any changes—such as the deferral of loan charge-offs—that would impair the meaningfulness or credibility of bank financial statements.

In summary, Mr. Chairman, the banking industry as a whole has demonstrated a remarkable ability to withstand the financial pressures and volatility of the last several years. To be sure, a considerable number of banking organizations are experiencing severe strains resulting from heavy exposure to the agricultural, energy, and in some cases, the real estate sectors. However, it is important to keep these problems in proper perspective and recognize that the great majority of banks remain in healthy condition and the system is fundamentally sound.

Much progress has been made over the last several years in encouraging banking organizations to increase their capital bases, and this has contributed significantly to the ability of banks to withstand periods of uncertainly and adversity. The prospects of lower inflation and interest rates and improved economic performance generally augur well for the future health and stability of our banking system.

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Subcommittee on Financial Institutions

Comparison of alternative criteria for identifying "agricultural" banks

Item	December 31 1982	 1983	 1984	 1985
Unweighted average of farm loan ratios at all banks (percent)	17.74	17.56	16.95	16.14
Number of "agricultural" banks:				
Banks with farm loan ratio that is—				
25 percent or higher	4,112	4,065	3,922	3,689
Above the unweighted average	5,156	5,115	4,979	4,847
Farm loans at "agricultural" banks as a percentage of farm loans at all banks:				
Banks with farm loan ratio that is—				
25 percent or higher	51.0	50.9	50.2	46.8
Above the unweighted average	60.3	60.1	60.0	58.1
Addendum				
Farm loans as a percentage of total loans at all banks	4.34	4.30	3.98	3.40

Chairman St Germain. Thank you, Mr. Martin.

Now, Mr. Seidman, we will hear from you. As I stated earlier, your entire statement is in the record.

STATEMENT OF HON. L. WILLIAM SEIDMAN, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. Seidman. Thank you, Mr. Chairman, members of the subcommittee.

I welcome this, my first opportunity to meet with you. As requested, I will be as precise as possible. I will not discuss the various sectors of the economy, as Governor Martin has just covered those and we have no substantial differences with him.

I would like to——

Chairman St Germain. How do you agree with Mr. Clarke, then, because they don't agree?

Mr. Seidman. I know there are some questions.

Chairman St Germain. Discrepancies; right? Whose side are you on—Governor Martin's or Mr. Clarke's—as to the status and the health of the financial industry?

Mr. Seidman. I think the health is improving. I think that profits are near flat. They are lower——

Chairman St Germain. My question is whose side are you on? Do you think Governor Martin and the Fed are on the mark or that Brother Clarke is on the mark?

Mr. Seidman. I come down squarely in the middle, Mr. Chairman. [Laughter.]

Chairman St Germain. You are going to do well before this committee. [Laughter.]

Mr. Seidman. Thank you. [Laughter.]

Let me continue just with respect to the economy. I would like to make three quick points and then I would like to proceed to our recommendations for legislation.

First, I do agree with Governor Martin's general analysis of the various sectors.

Second, I do think that we can see improvement ahead in the farm area. Lower energy costs, lower interest costs, and a lower value of the dollar are all moving to improve the conditions for recovery in the farm area. And while we have not seen that recovery yet, certainly, I think we can see some light at the end of the tunnel. I do think that farm land prices appear to be stabilizing.

And so I would make that point because it means that we are in a farm cycle and the program which the three agencies proposed was designed to meet the needs of cyclical downturn.

Finally, in the oil area, as you all know, it is still highly uncertain, and I think it is probable that things will be worse before they are better in that particular area.

If I may, then, let me turn to the recommendations for legislation, the first of which, of course, is that we would recommend the continuation of the acquisition provisions in the Garn-St Germain Act of 1982 that expire in less than 1 week.

The current provisions provide for out-of-State purchases of failed commercial banks and failed or failing mutual savings banks with assets of $500 million or more. These provisions have materially increased the FDIC's options in handling several bank failures.

In February of this year, for example, they were used in the failure of the Park Bank in Florida and at least $37 million was saved by the FDIC as a result of that transaction alone.

But these provisions do have significant limitations. Eligible commercial banks may be acquired only if they are closed.

In contrast, an eligible mutual savings bank may be acquired prior to closing.

Absent specific State legislation, existing law does not provide for acquisition of holding company affiliates of a failed or failing bank. In addition, if a bank is acquired by an out-of-State bankholding company, the bank may expand through the State by branching if branching is permitted, but not by holding company acquisition in a unit State.

This means that in unit banking States, the out-of-State bankholding company entry is limited to the site of the bank it acquires. This is, of course, a major disincentive to acquisition in unit banking States.

As a result, we believe the law needs to be extended, but it also needs to be broadened and improved. Our purpose is to provide the FDIC——

Chairman **St Germain**. Excuse me, Mr. Seidman. Would you be kind enough to get friendlier with the microphone because some of my members are having a problem hearing you.

Mr. **Seidman**. Sorry. OK. Our purposes are threefold. First, we wish to reduce the cost to the Federal Deposit Insurance Fund with these amendments. Second, we want to minimize the disruption of financial services to the community, and this is increasingly important. And third, we want to maintain the confidence in and the safety and soundness of the banking system as a whole.

We propose four things.

First, we would lower the size threshold of banks eligible for acquisition.

Second, we would permit the acquisition of failing, as well as failed, commercial banks.

Third, we would extend the scope of the provision to include bankholding company systems, as well as banks.

Fourth, we would require equal treatment or parity for acquiring banks in the State of acquisition.

I have in my statement some additional specifics on those terms.

Chairman **St Germain**. Let me ask you this. Do you have specifics on the word "failing"?

Mr. **Seidman**. We do have some specifics.

Chairman **St Germain**. Well, I read the statement and I didn't think it was all that specific. We're going to have to talk about that some more as we consider it further.

Mr. **Seidman**. We are prepared to talk about that and to provide you with proposed legislation.

Chairman **St Germain**. Let me ask you this, Mr. Seidman. In essence, what you are recommending really is interstate banking without a trigger.

Mr. **Seidman**. No, that is not what we are really recommending, Mr. Chairman.

Chairman St Germain. Well, I think some of the other members may feel that way, so we will leave it to the question and answer period.

Mr. Seidman. I understand that there would be some people——

Chairman St Germain. We reported the 5-year trigger from this committee. It is now in the Rules Committee. But really and truly, Mr. Seidman, when I read the recommendations that are coming to us for changes in the Garn-St Germain acquisition's section, it certainly looks to me as though that's interstate banking, without even bothering with the trigger.

Go ahead and proceed and then we will get back to that.

Mr. Seidman. If I may just comment on that, Mr. Chairman.

Chairman St Germain. Sure.

Mr. Seidman. I think it's a balance between what we are doing in the interstate field and how we can achieve the lowest cost for the system. Specifically, and importantly, we wish to achieve the least disruption for the economic community and the financial community in the particular area. In addition, we hope to handle things in a way that will lead people to believe, as they should, that we have a system that can provide stability when there are problems with particular banks.

So I think we have tried to balance those two considerations.

Chairman St Germain. Well, I just would comment that you will have a lot of convincing to do.

Mr. Seidman. Yes, sir. Our second proposal, arranging the assistance transaction for failing banks before failure, can be very cost effective. Franchise values will be less eroded by the flight of bank customers and tax loss benefits will be retained. Absent this proposal, the process of decline into insolvency could create a ripple effect in the financial community an effect which should be avoided.

Thus, an out-of-State acquisition should be permitted not only for failed banks, but also for banks in danger of closing. We would define a bank in danger of closing as a bank that is no longer viable and able to adequately serve the community. This would increase the potential for finding a private solution with less commitment of FDIC funds and with far less disruption in the community.

Third, an out-of-State holding company should have the ability to buy the stock of the failing bank and to buy stock of any of the banks' affiliates. The existing laws suffer from serious defects of not providing for the situation where a failing bank is an integral part of a larger banking organization.

This failure could result in the dismemberment of the existing established systems with disruptive effects in a local community and large costs to the fund.

Fourth, the out-of-State purchaser should be accorded all the branching and acquisition rights of any other holding company operating in the State of the acquired bank or holding company. To do any less would discourage purchasers of failing or failed banks in unit banking States.

The current law contains a number of safeguards developed when these provisions were enacted in 1982. These include notices to and an opportunity for objection by State banking supervisors and rebidding procedures under certain circumstances.

We believe these are appropriate for all cases in which the FDIC is providing assistance.

I would just like to make one final point, Mr. Chairman, and that is with respect to the application of Garn-St Germain and now the antideficiency act to our agencies.

We have voluntarily complied with the Gramm-Rudman laws and we are now being informed by OMB that they wish us to comply with a 36-year-old act called the antideficiency act.

We are seriously concerned about maintaining the independence of the banking supervisors and particularly of maintaining strong supervision in this period of strain in the system and in this period of change. And we believe that it would be beneficial for the Congress to ensure that the independence of bank supervisors is maintained.

Thank you.

[The prepared statement of Mr. Seidman follows:]

STATEMENT ON

MAGNITUDE OF BANK DIFFICULTIES IN THE AREAS OF AGRICULTURAL LENDING, ENERGY LENDING, AND LENDING TO LESS DEVELOPED COUNTRIES

PRESENTED TO

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

BY

L. WILLIAM SEIDMAN
CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION

Room 2128, Rayburn House Office Building

April 9, 1986
10:00 a.m.

Mr. Chairman, members of the Subcommittee, I welcome this opportunity to meet with you. As you requested, I will be as precise as possible in discussing the magnitude of bank difficulties in agricultural lending, energy lending, and lending to less developed countries.

You also asked if any changes in existing law or regulation are needed. The question is directly on target. We do need legislation, and we need it now. The most pressing issue is the bank acquisition provisions of the Garn-St Germain Act of 1982. Those provisions expire on April 15, less than one week away. Those provisions should be extended and their scope should be expanded in several important repects. These changes are important if the FDIC is to have the tools it needs to minimize outlays by the deposit insurance fund, minimize community disruptions, and foster safety and soundness of the banking system as a whole.

Before I address the interstate provisions, let me touch on the lending difficulties.

Agricultural Lending

There are close to 4,000 banks which have at least 25 percent of their loan portfolio in farm loans. Most of these banks are located in the Midwest and Great Plains states. They are typically small, with total assets equal to only about 4 percent of all commercial bank assets in the U.S. Our problem bank list includes 466 farm banks, or 40 percent of all problem commercial banks. Both the number and percentage of problem farm banks has risen sharply. In 1983 there were just 100 problem farm banks, that constituted 22 percent of problem banks. Failures in farm banks are also running high. In 1985, 62 of a record number of 120 failures and assisted transactions involved farm banks.

Farm lending is directly tied to the agricultural economy and we see signs of improvement. Interest rates are way down, reducing debt servicing costs. The decline in oil prices will also benefit the farmer, reducing the cost of fuel, fertilizer and other petroleum based farm supplies. The reduction in the value of the dollar increases the potential for overseas sales. Importantly, we see evidence of firming farmland prices. Thus, there is some light at the end of the tunnel. My own experience shows when everyone is convinced how bad things are, they inevitably start to get better. I think we're about at that point now -- which is the underlying rationale behind our recently announced capital forbearance policy.

Energy Lending

The recent fall in the price of oil has been a benefit to most sectors of the economy but it has presented real economic problems for the oil and gas industries and three principally affected states, Texas, Oklahoma and Louisiana. A recent study of energy lending indicated about $57 billion, or 92 percent, of identified energy loans are in the portfolios of banks with total assets of $1 billion or more. Thus, energy lending is primarily a problem of the large regional and multinational institutions. In addition, of the 563 commercial banks identified in the energy survey, 103 or 18 percent are on the FDIC's problem bank list. At the April 1985 shared national credit review, 17.5 percent of oil and gas credits were criticized. This compares unfavorably to other industries where only 5.4 percent of loans were criticized. The next shared national credit review will be conducted shortly. The volume of problem loans is expected to expand dramatically. But this is not a big bank problem only. There is spillover of loan problems to many of the smaller banks operating in affected states; unemployment has swelled, real estate prices have fallen and State tax revenues are threatened. Problems will worsen if the price of oil stays at current levels for an extended period of time.

Less Developed Country Lending

Lending to less developed countries is concentrated in the 24 biggest banks. Many of these banks have sizable concentrations in LDC loans well in excess of their primary capital accounts. We are all aware that reschedulings, primarily through the IMF, have served to buy time. However, the long-term solution to the loan problems in most of these countries is true economic reform in the debtor country. Capital flight must be discouraged and productive foreign exchange generating investment must be encouraged. The Baker initative is a step in the right direction. Some signs of economic reform are now visible, particularly in Argentina and Brazil. Lower interest rate levels will help all LDC borrowers. The decline in the price of oil is a two edged sword, benefitting most LDC's but hurting the oil exporters, Mexico, Venezuela and Nigeria. LDC loan problems will persist for many years. All three Federal regulators have taken positive action. Capital ratios at the big banks have been increased. Loan valuation reserves have also been increased although more is needed. In this regard the proposal to eliminate tax deductibility of these loan reserves is not helpful. The LDC lending problem is serious, but it is less serious than it was three years ago. In our opinion the problem is manageable.

Needed Legislation

Let me now speak of the urgent need to extend and improve the bank acquisition provisions of the Garn-St Germain Act of 1982 that expires in less than one week. The current provisions provide for out-of-state purchases of failed commercial banks and failed or failing mutual savings banks with assets of $500 million or more. These provisions have materially increased the FDIC's options in handling several bank failures. In February of this year, for example, they were used in the failure of Park Bank in Florida, and at least $37 million was saved by the FDIC as a result of this transaction alone.

But these provisions have significant limitations. Eligible commercial banks, may be acquired only if they are closed. In contrast, an eligible mutual savings bank may be acquired prior to closing. Absent specific state legislation, existing law does not provide for acquisition of holding company affiliates of a failed or failing bank. In addition, if a bank is acquired by an out-of-state bank holding company, the bank may expand throughout the state by branching if permitted, but not by holding company acquisitions. This means in unit banking states, the out-of-state bank holding company's entry is limited to the site of the bank it acquires. This is a major disincentive to acquisitions in unit banking states.

As a result, we believe the law needs not only to be extended but also to be broadened and improved. Our purpose is to provide the FDIC greater flexibility in order to reduce the cost to the Federal Deposit Insurance Fund, minimize disruption of financial services to the communities involved, and maintain the safety and soundness of the banking system as a whole.

Briefly, our proposal would do four things. First, it would lower the size threshold of a bank eligible for acquisition. Second, it would permit the acquisition of failing as well as failed commercial banks. Third, it would extend the scope of the provision to include bank holding company systems as well as banks. Fourth, it would require equal treatment for acquiring banks in the state of acquisition.

Now for some specifics. The existing interstate provision works this way. When a bank of $500 million or more in total assets is closed, the FDIC, as receiver, may arrange the sale of assets and assumption of liabilities of the closed bank by an out-of-state bank or holding company. The $500 million threshold is too high a hurdle, as most troubled banks are considerably smaller. We propose a reduction to at least $250 million. We are finding that it is becoming ever more difficult to arrange within state purchase and assumption transactions, and the transactions we do arrange are now on average more costly to the insurance fund. Energy sector banks are of particular concern. Reducing the $250 million limit will permit us to arrange acquisition transactions that otherwise might not occur.

Second, arranging an assistance transaction for failing banks before failure can be cost effective. Franchise value would be less eroded by the flight of bank customers and tax loss benefits are retained. In addition, the process of decline into insolvency that can create a ripple effect in the financial community may be avoided. Thus, an out-of-State acquisition should be permitted not only for failed banks, but also for banks in danger of closing. We would define a bank "in danger of closing" as a bank that is no longer viable and able to adequately serve the needs of its community. This would increase the potential for finding a private solution with a lesser commitment of FDIC funds, while reducing community disruption.

Third, an out-of-state holding company should have the ability to buy the stock of the failing bank and to buy stock of any of the bank's affiliates. The existing law suffers from the serious defect of not providing for the situation where a failing bank is an integral part of a larger banking organization. This failure could result in the dismemberment of existing established systems with disruptive effects in the local community.

Fourth, the out-of-state purchaser should be accorded all of the branching and acquisition rights of any other holding company operating in the state of the acquired bank or holding company. To do any less would discourage purchasers of failing or closed banks in unit banking states.

The current law contains a number of safeguards developed when these provisions were enacted in 1982. These include notice to and an opportunity for objections by the State banking supervisor and rebidding procedures under certain circumstances. We believe these are appropriate if the FDIC is providing assistance.

We have worked with the Federal Reserve Board and the Office of the Comptroller of the Currency in preparing the proposal. Both agencies are in agreement as to the need for the legislation.

While the improvement of the interstate provisions of the Garn-St Germain Act of 1982 is the most pressing of needed legislation because of the April 15 expiration, we also need additional help both in the form of failure management legislation and legislation to help prevent failures from occuring. I will briefly touch on some of these legislative proposals, which I outlined in testimony before the Committee on Banking, Housing and Urban Affairs of the United States Senate, on March 13.

The FDIC needs more time to handle failed or failing institutions. As regional and interstate banking become the pattern in the country, more time to assemble bidders is necessary. Sudden systemic disruptions to sectors of our economy also argue for the FDIC to have conservatorship and bridge bank powers. A Federal depositor preference statute is also important. This would allow the FDIC to handle more small bank failures as purchase and assumption transactions and facilitate the handling of a large failed bank by overcoming the problem of satisfying sometimes considerable nondeposit liabilities, particularly in connection with guarantees, off balance sheet activities and litigation.

Finally, but not least important, the traditional independence of bank regulators is threatened. The bank supervisory system must remain independent in order to quickly respond to fast changing events in a nonpartisan manner.

Deregulation requires vigilant supervision. The increased competition among banks and between banks and other institutions, including nonbank banks, has narrowed profit margins and, possibly, encouraged risk taking. Ownership of nonbank banks presents conflict of interest possibilities which must be monitored. A quality examination staff is critically needed to evaluate these risks. Extensive lending problems in the farm, oil and gas, and less developed country sectors require additional supervision of the best quality. After 36 years, the Office of Management and Budget has suddenly asserted new (and we believe unfounded) jurisdiction over the FDIC, the Comptroller of the Currency and the Federal Home Loan Bank Board under the Antideficiency Act of 1950. The Congress should move immediately to exempt the three Federal institutions from asserted OMB control in order to maintain independence, competence and flexibility in the regulators' operation. In doing so, the Congress is well aware that the regulatory agencies are self-funded and do not require taxpayer dollars. Oversight of agency budgets should remain under the Congress.

Chairman St Germain. And now, Mr. Clarke, we will hear from you. Your statement has already been placed in the record, so you may proceed.

STATEMENT OF HON. ROBERT L. CLARKE, COMPTROLLER OF THE CURRENCY

Mr. Clarke. Thank you, Mr. Chairman. I hope there is not any significance to the fact that I only have one microphone and my switch doesn't have a light on it.

Chairman St Germain. Well, as Chalmers says, you are coming through loud and clear. It must be that you have a voice that carries well.

Mr. Clarke. All right.

Chairman St Germain. See, you didn't know this, but our very, very efficient staff did some audio tests on your voices prior to your arrival here, because of the shortage of microphones, one of the resulting effects of Gramm-Rudman, you see. [Laughter.]

Mr. Clarke. Thank you, Mr. Chairman.

Mr. Chairman, and members of the subcommittee, I am pleased to have this first opportunity to appear before you to discuss the current condition of the national banking system. The most accurate way to characterize the condition of the banking system is that it is sound but under some pressures. A number of banks have exposures to weak sectors of the economy. A more general problem facing banks is increasing competition from less regulated providers of financial services. Despite these pressures, however, the banking system has shown remarkable resiliency. Most banks are well-managed and have the ability to work through their problems. Public confidence in the banking system remains generally high.

My written statement and the statistical information provided in response to the subcommittee's data request give an overview of the current situation regarding agricultural, energy, real estate, and international lending. Rather than reviewing that information this morning, I would like to spend my time discussing steps that we are taking to address the immediate problem of banks with significant exposures to these troubled sectors and congressional action that is needed to enhance our ability to deal with weakened institutions. I will then turn to a more fundamental problem related to the commercial banking industry's long-term ability to compete and will discuss some measures that we believe should be taken to address this problem in order to ensure the long-term safety and soundness of commercial banks.

The OCC is currently in the process of implementing several regulatory changes that should ease some of the difficulties being experienced by banks with exposure to weakened sectors of the economy. These steps are aimed at ensuring that lenders have the opportunity and the incentive to restructure loan terms to make it possible for borrowers to repay their debts.

The first step involves alerting bankers to the existence of Financial Accounting Standards Board Statement No. 15, an accounting procedure that has been in effect since 1977. Under certain circumstances, it can be used to account for concessions in financing terms granted to borrowers experiencing financial difficulty without requiring the institution to record any losses.

Second, we have approved certain changes to the call report disclosure requirements for restructured loans that will enable banks to distinguish those loans that, although restructured, are in compliance with the new terms. Such restructured loans will no longer be included in the category of nonperforming loans. Instead, they will be reported as restructured loans in compliance with the modified terms.

Third, and most important, is the implementation of a capital forbearance program. The essence of this program is to encourage banks to recognize losses by allowing them to operate temporarily with lower levels of capital. Because a primary purpose of capital is to absorb unanticipated losses, we believe that banks with relatively high levels of capital should now use that capital as they attempt to overcome their current difficulties.

Capital forbearance will permit banks whose agricultural and oil and gas loans equal at least 25 percent of their total loans and leases to operate with primary capital that is below the minimum 5½ percent primary capital-to-asset ratio but not less than 4 percent. For a bank to be eligible for capital forbearance, its weakened capital position must be largely the result of problems in the agricultural and/or the oil and gas industries. Banks must submit a plan for restoring capital by 1993, addressing, among other things, reduced dividend levels and limits on compensation. Moreoever, participating banks must submit annual progress reports on their compliance with their capital plans.

We believe capital forbearance is a constructive response to the needs of banks and their borrowers during a difficult period of transition. Its primary beneficiaries will be banks that have sufficient earnings to absorb chargeoffs and to replenish capital. It will not, however, provide any support to those banks that have completely exhausted their capital, nor will it assist banks that have little or no prospect of returning to profitability. While these banks will continue to receive our supervisory attention, capital forbearance would only prolong their difficulties without improving their prospects for recovery, thus raising the potential liability to the FDIC.

Finally, to offset the decline in a bank's lending limit that occurs when it recognizes agricultural and oil and gas loan losses, we intend to amend temporarily our legal lending limit. The amendment would increase the general lending limit for national banks to no more than 20 percent of capital. The new limit would not increase any bank's legal lending limit above what it would have been had it not experienced losses from agricultural or oil and gas credits.

These four measures, which do not require changes in Federal statutes, are being implemented through regulatory actions. Each of the bank regulatory agencies has sent written communications to the banks which they supervise and to the examiners in the field. The call report revisions and the proposed rule on loan limits for national banks are pending clearance at OMB, and we do not anticipate any problems in obtaining that approval.

There is, however, a need for congressional action to assist the banking agencies in resolving failing bank situations and in reducing the adverse effects of bank failures. We would be pleased to work with the members and staff of this subcommittee to prepare legislation amending and extending the emergency acquisition provisions of the Garn-St Germain Act of 1982, which expire on April 15. Since you have already heard Vice Chairman Martin and Chairman Seidman comment on those proposals, I will not spend time on them this morning.

It would be a mistake to confine our attention solely to those banks suffering from significant loan exposure to weakened economic sectors. A more fundamental problem facing the commercial banking system is the mediocre performance of commercial banks in general.

The earnings and profitability of national banks are important determinants of their ability to weather economic volatility and to generate new loans. A bank requires strong, steady earnings to build the reserves needed to absorb losses that occur in the normal course of the business cycle. Furthermore, an attractive rate of profitability provides potential investors with a reasonable dividend yield and the prospect of capital appreciation, and thereby enhances the ability of the bank to raise external capital.

Unfortunately, the commercial banking system is becoming less profitable, both absolutely and relative to the risks that it assumes. This trend of lower profitability is evident at banks of all sizes. Although the majority of the banking industry continues to generate adequate earnings, there is a growing minority of commercial banks with earnings that can only be characterized as poor.

A major problem commercial banks face, aside from the deterioration in the quality of their borrowers, is a reduction in their lending opportunities. The flight of the high-quality multinational corporations from the banking system to the commercial paper market is often cited as evidence of this development. We believe, however, that the same phenomenon is beginning to occur at the retail level. Nonbank competitors such as insurance companies, finance companies, securities firms, and thrift institutions are offering products such as individual retirement accounts, credit cards, car loans, home mortgages, and multipurpose investment and transaction accounts with features and interest rates that are enabling them to capture the banks' most profitable and least risky retail customers. One reason these competitors can offer such attractive products is that many of them are less regulated than commercial banks. For example, thrift institutions operate with capital ratios that are significantly below those required of commercial banks. As a consequence, the traditional lending activities of banks are becoming more risky and less profitable.

The bank performance data presented in my full statement help illustrate why we are concerned. Let me highlight a few of those statistics. Average return on assets for the 4,500 community banks with Federal charters has declined in each of the past 6 years. In recent years, the percentage of banks with losses has grown, and the percentage of banks with high earnings, defined as a return on assets in excess of 1½ percent, has fallen. And only one-third of the national banks that reported losses in 1985 were agricultural or energy banks.

The earnings coverage of losses for the largest national banks has declined in 5 of the past 6 years. A decline in this figure indicates that these banks' loan chargeoffs are consuming an increasing portion of their income.

Chairman ST GERMAIN. Which particular loan chargeoffs? Those of the large banks; right?

Mr. CLARKE. Those of the largest national banks, yes, sir.

Chairman ST GERMAIN. Yes. So which loan chargeoffs?

Mr. CLARKE. Loan chargeoffs in general. That would include the whole portfolio.

Chairman ST GERMAIN. There aren't any chargeoffs that loom a little higher than others?

Mr. CLARKE. I think you have to look at it on bank-by-bank basis. Different banks have different mixes in their portfolios.

Chairman ST GERMAIN. In other words, you don't think the LDC loans are a significant portion of that?

Mr. CLARKE. Those are not a significant portion of chargeoffs.

Chairman ST GERMAIN. They are not.

Mr. CLARKE. They are, in some cases, a significant portion of the bank's portfolio.

Chairman ST GERMAIN. Well, let me put it this way. Is it mainly foreign lending or domestic lending, where the chargeoffs have occurred?

Mr. CLARKE. It is my impression that it is primarily in domestic lending that the chargeoffs are occurring, although reserves are certainly being taken against the foreign loans as well.

Finally, deteriorating asset quality is a key factor in the decline in earnings. Loan-loss provisions as a percentage of assets have increased steadily since 1980 for national banks of all sizes.

I believe that steps must be taken to give banks the flexibility to diversity their assets and sources of income and to restructure their products and services efficiently and in line with changing consumer demands. If we do not take these steps, there exists the potential for a gradual erosion in the safety and soundness of the banking system. There will be continued credit problems, pressure on earnings, and, over time, a reduction in the ability of the banking system to compete and deliver the products that consumers demand.

Thus, I urge you to consider legislation that would modernize substantially the laws governing permissible banking activities. Securities brokerage and underwriting, insurance, and real estate brokerage and investment powers would enable banks to offer a broad menu of products and services such as many of their nonbank competitors now offer, thus eliminating substantial inequities that now prevail among financial services providers.

I am well aware of the argument that some of the activities proposed are unacceptably risky for banks. In my view, the key safety and soundness issue arising from banks engaging in new activities is the degree to which a bank's capital or liquidity can be impaired by losses or other adversities associated with the new activity. In making that evaluation, it must be recognized that a multitude of business activities now prohibited for banks are less risky than commercial or consumer lending. To the extent that an activity exposes or is perceived to expose a bank to increased risk, there only remains the task of implementing safeguards to limit the exposure of the bank's capital.

Ultimately, the stability of the banking system relies on its ability to maintain public confidence. In spite of the barrages of bad news about banks that appear so frequently, our banking system remains stable. Most banks are well-managed and have the ability to work their way through the problems they may be facing.

Banks' longrun health, however, depends on their having the flexibility to adapt to changes in their marketplace environment. We must commit ourselves to exploring—and enacting—measures that will enable banks to compete effectively and diversify prudently. Only then can we be assured that we have done what is necessary to engender a strong banking system that can continue to serve the needs of the public.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Clarke follows:]

STATEMENT OF
ROBERT L. CLARKE
COMPTROLLER OF THE CURRENCY
Before the
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION,
REGULATION, AND INSURANCE
of the
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
April 9, 1986

Mr. Chairman and members of the Subcommittee, I am pleased to have this first opportunity to appear before you to discuss the current condition of the national banking system. The most accurate way to characterize the condition of the banking system is that it is sound but under some pressures. Those pressures emanate from several sources. A number of banks have exposures to weak sectors of the economy. A more general problem facing banks is increasing competition from less regulated providers of financial services. Despite these pressures, however, the banking system has shown remarkable resiliency. Most banks are well-managed and have the ability to work their way through their problems. Public confidence in the banking system remains generally high.

In my statement this morning, I will review current data regarding agricultural, energy, real estate, and international lending and the actions we are taking to address the immediate problems of banks with significant exposures to these troubled sectors. I will then turn to a more fundamental problem related to the commercial banking industry's long-term ability to compete and will discuss some measures that we believe should be taken to address this problem in order to ensure the long-term safety and soundness of commercial banks.

NATIONAL BANK EXPOSURES TO WEAK ECONOMIC SECTORS

We are all aware of the dramatic changes in economic conditions that have taken place in recent years. Inflation, which accelerated during the 1970s, has become almost insignificant. Indeed, the prices of some commodities have actually fallen. This is good news for consumers, but it has placed strains on businesses that made decisions based on assumptions of continuing high inflation. In the U.S., a strong recovery has followed the deep recession of 1981-82, but foreign economies have recovered more slowly. The slow recovery of foreign economies has led to loan losses in the private sectors of those economies, and less-developed countries continue to have debt service problems. In addition, domestic businesses with significant international activities are under pressure. In particular, the strong dollar led to difficulties for exporting industries and for industries that produce goods that compete with imports.

These phenomena have resulted in severe declines in the agricultural, energy, and real estate sectors. In your letter of invitation, Mr. Chairman, you asked that I specifically address the problems facing banks with loans to these sectors of the U.S. economy, as well as to less-developed countries.

Agricultural Lending. The problems facing the farm sector are well known. Those banks with the greatest exposure to farm borrowers are of particular concern to bank supervisors. We define agricultural banks as those that have over 25 percent of their gross loans in agricultural credits. Roughly a quarter of all commercial banks meet that definition. These banks hold about half of the $47 billion in commercial bank credit to the farm sector, but hold less than 4 percent of the total $2.7 trillion of commercial bank assets. Most of these banks are located in the Midwest.

As of December 1985, there were 810 federally chartered agricultural banks. The earnings of many of these banks have been adversely affected since the early 1980s. Last year, 178 of these banks reported losses, compared with 134 at year-end 1984 and 78 at year-end 1983. The median ratio of classified assets to gross capital funds at all national agricultural banks reached 52 percent as of September 1985 (the most recent date for which these data are available), up from 39 percent one year earlier and 30 percent two years earlier. In contrast, the median ratio for nonagricultural banks rose over the past two years from 19 percent in September 1983 to 24 percent in September 1985.

The adverse effects of the deteriorating agricultural sector are also reflected in the rising number of problem and failed agricultural banks. As of year-end 1982, only 1 percent of national agricultural banks were problem banks. As of December 1985, 13 percent of all national agricultural banks, or 103, were problem institutions. Of the 30 national banks that failed in 1985, 10 were agricultural banks. Five of the eight national banks that failed in the first quarter of this year were agricultural banks.

Fortunately, most agricultural banks hold significant amounts of capital, and many continue to generate good earnings. As of December 1985, 93 percent of national agricultural banks reported capital in excess of 7 percent of assets; 57 percent had capital-to-assets ratios in excess of 9 percent. While 22 percent of national agricultural banks reported year-end losses, almost 35 percent of all national agricultural banks reported a return on assets of 1 percent or greater.

The continuing weakness of the agricultural sector undoubtedly will continue to place pressure on the earnings and capital of agricultural banks. Nonetheless, most agricultural banks have the resources, management ability, and willingness to work with their borrowers. We believe that efforts should be directed at helping them through this difficult period.

Energy Lending. In December 1984, we began collecting special energy-loan call reports from national banks with oil and gas loans equal to 25 percent or more of their total capital. Two hundred and forty-nine national banks -- roughly one in 20 -- currently meet that test. In assessing the effects of oil and gas lending, it should be kept in mind that most of these banks hold diversified portfolios. Among all reporting banks, oil and gas loans represent approximately 9 percent of all loans.

Data from the December 1985 special energy-loan call reports (the most recently available) indicate that these banks have nearly $40 billion in oil and gas loans on their books. (This figure does not include much of their lending to the oil-exporting LDCs.) Among these banks, the median value of total assets is $99 million. Volatile liabilities (generally short-term uninsured deposits) fund approximately 23 percent of their assets, compared to 11 percent for other national banks.

Nearly 60 percent of reported oil and gas loans are held by nine multinational banks. Almost 94 percent are held by banks with assets in excess of $1 billion. A large number of small banks (some with as little as $5 million in assets) hold the remaining 6 percent of reported loans. Seventy-seven percent of the reporting banks, which hold nearly 36 percent of the reported loans, are based in Kansas, Louisiana, Oklahoma, or Texas.

Earnings and capital at reporting banks are under pressure. The median primary capital ratio is 7.8 percent, compared to a primary capital ratio of 8.5 percent for other national banks. Reporting banks have a median ROA of 0.64 percent, compared to 0.93 percent for other national banks.

According to data from the December 1985 energy-loan call reports, slightly less than $2.8 billion, or 7 percent of total reported oil and gas loans, are not accruing interest. By comparison, nonaccrual loans held by all national banks equal 3.2 percent of commercial and industrial loans. Among the categories of borrowers, the highest percentages of nonaccrual loans are to refiners and the oil services companies -- 15.2 percent and 14.9 percent, respectively. Approximately 6.5 percent of the loans to the independents are nonaccruing and loans to firms identified as majors show virtually no nonaccruing loans.

In part because of the effect of the downturn in the oil and gas industry on the regional economy, many of the banks in the Southwest are reporting increased problem credits in categories of loans other than oil and gas loans. The median nonaccrual rate on all loans at reporting banks is 2.7 percent, compared to a median of only 0.8 percent for other national banks. Approximately 18 percent of reporting banks are on the OCC's problem bank list, compared to 5 percent of other national banks.

Certain banks in the Southwest face major earnings challenges. If oil prices continue to be unstable and remain well below $20 per barrel for an extended period of time, we expect an increased number of problem oil and gas loans and related credits. This would reduce earnings further and require additional loan-loss reserves.

Real Estate Lending. The boom in real estate construction over the past several years has caused an oversupply of both residential and nonresidential buildings in some markets. For example, office building vacancy rates in the major metropolitan areas currently average 15 percent with some areas over 30 percent. These are well above historical vacancy rates, which have ranged between 3 and 10 percent. These high vacancy rates are projected to continue at least through next year and in some markets into 1990.

High vacancy rates present a twofold problem for banks involved in construction lending. First, high vacancy rates often lead to competitive rent concessions, which reduce a project's potential cash flow. Second, lower realized cash flow decreases the market value of the building that provides collateral for the bank's loan.

An analysis of bank loans in early 1985 shows that construction lending by national banks is at an all-time high. Multinational and regional banks were found to be carrying the bulk of the construction loans. The larger banks also showed the greatest growth rates for construction loans.

In July 1985, the Office of the Comptroller of the Currency conducted a survey to evaluate the growth in real estate construction loans at national banks. Specifically, we sought to learn whether real estate construction appraisals reflected current market declines and whether banks were recognizing potential problem loans and losses.

The institutions surveyed represent bank holding companies and non-holding company national banks. They have more than $900 billion in assets and report $67 billion in real estate construction loans. More than half of the reported loans are for nonresidential construction, including $21.5 billion for office building construction. Twenty-six percent of the total nonresidential construction loans reported are in the Southwest.

The survey indicated that some real estate construction appraisals supporting construction loans had not been updated to reflect the adverse economic conditions that developed in many metropolitan areas. Consequently, the OCC issued Examining Circular 234, "Guidelines for Troubled Real Estate Loans," last October. Distributed both to our examiners and to national banks, this circular, among other things, placed renewed emphasis on the importance of obtaining accurate reappraisals in areas where real estate values are declining.

In November and December, targeted real estate examinations were conducted at 16 national banks that have a significant volume of real estate loans and are lending to real estate markets that our survey indicated are particularly weak. In these examinations we found few cases of unidentified real estate losses. Where such losses were found, the most common cause was management's overly optimistic view of the condition of the real estate market in which the bank was lending.

Nineteen eighty-six is expected to be a transition year as nonresidential construction slows down. The excess supply of office space will not, however, go away quickly. A large number of projects begun in earlier years that are still under construction will appear on the market this year.

International Lending. As of September 30, 1985, international loans by U.S. banks totaled $318 billion. Sixty percent of those loans are held by the nine largest U.S. money center banks, and 80 percent are held by the largest 24 banking institutions. About one-third of the loans, $100 billion, are to developing countries, $82 billion of which are owed by Latin American countries.

U.S. banks' international lending grew throughout the 1970s for many reasons, including the need to recycle OPEC surpluses, the prevailing negative real rates of interest available, and the limits on U.S. banks' opportunities to expand domestically. During 1982, certain LDCs encountered debt-service problems because of their failure to undertake appropriate domestic economic policies in the face of the 1979 oil price increase, the prolonged global recession, and high interest rates. However, the collective international debt strategy begun during 1982 has led to progress in reducing banks' vulnerabilities from international loans, while improving many countries' financial positions.

The debt rescheduling and new lending arranged collectively by creditor and debtor governments, as well as by multilateral and commercial lenders, maintained the stability of the international financial system. Since 1982, the IMF has lent approximately $34 billion to 100 countries, including $14 billion to Latin America. As part of the effort, commercial banks world-wide have rescheduled about $200 billion of developing country debt and have provided roughly $27 billion in new loans to certain LDCs. Overall, these reschedulings and new money packages, linked to successful adjustments by the countries themselves, have enabled many debtor countries to improve their exchange-rate and trade positions, restructure their debt maturities, service their debts in a reasonable manner, and provide a foundation for growth.

In addition, U.S. banks have strengthened their balance sheets since 1982. The largest 24 U.S. banking institutions increased their loan-loss reserves as a percent of total loans from 1.1 percent to 1.6 percent. Their average primary capital-to-assets ratio rose by 170 basis points, from 5 percent in 1982 to 6.7 percent in 1985. Since 1982, the 24 largest institutions have increased their primary capital by over $25 billion.

U.S. institutions reduced their international lending from a high of $359 billion in 1983 to $318 billion last September. Since 1982, the 24 largest institutions have decreased their international lending by $23 billion. The nine largest U.S. banks have decreased their Latin American exposure as a percent of capital from 177 percent to 129 percent, and the next 15 largest banks have decreased their Latin American exposure from 124 percent of capital to 76 percent of capital.

Finally, during the 1982-1985 period, policies in the industrial countries succeeded in dramatically lowering interest rates and inflation rates. A recent convergence of policies appears to have led to a better alignment of exchange values and rates of economic growth. This has provided developing countries with a more reasonable global economic environment in which to service their debt and proceed with their own policies for sustained growth.

Despite the progress since 1982, much more needs to be done to solve the international debt problem. Some debtor countries need to continue to reduce their high rates of inflation and budget deficits, better align their exchange rates, and promote domestic saving and investment to reverse the fundamental problems of capital flight and an over-reliance on bank lending. A more hospitable climate for foreign equity investment would help attract foreign funds without adding to the debt service problem. Until certain debtor countries implement credible policies that provide their citizens with confidence to invest their capital in their country, additional and alternative flows of foreign capital will be difficult to arrange.

Commercial bank lenders continually need to balance their objectives. As mentioned earlier, U.S. banks have reduced their vulnerability to the debt problems since 1982. On the other hand, it may be in the best interests of the banks to ensure that enough net new bank financing is available to assist debtor countries' meaningful adjustment efforts and to support the stability of the international banking system. The OCC stated in 1983, and has observed since, that such new lending may help improve the quality of outstanding exposure. Of course, it is ultimately up to the bankers themselves to make these decisions, which might even include certain short-term concessions or accommodations, which under appropriate circumstances would improve the longer-term outcome.

The international debt situation has become especially confused by the recent rapid decline in oil prices. There are benefits from lower prices to oil-importing LDCs. Moreover, lower oil prices have contributed to reductions in interest rates, which will reduce LDC interest payments on their bank debt. At the same time, lower oil prices and lower interest rates will stimulate growth in developing countries and enhance the export prospects of the LDCs.

On the other hand, the plunge in oil prices has focused attention on those debtor countries that service their debt from oil revenues. It is too early to determine the net effect of the current volatility in oil prices on the foreign debt held by U.S. banks. Even so, it is clear that the fall in oil prices has reduced the ability of some oil exporters to service their debt, and it may mean they will have to undertake additional macroeconomic and structural reforms, perhaps with the assistance of the IMF and the World Bank.

The problems of international debt developed over a long time. It will take time, patience, and a concerted effort to solve them. The debtor countries themselves have to adopt growth-oriented, long-term economic policies such as those advocated by Treasury Secretary Baker in his call for a Program of Sustained Economic Growth. Only when debtor countries begin adopting these policies can they expect to receive assistance from commercial and multilateral financial institutions to support adjustment.

OCC Actions

The OCC is currently in the process of implementing several regulatory changes that should ease some of the difficulties being experienced by banks with exposure to weakened sectors of the economy. Over the short-run, the most beneficial thing we can do for banks with loan-quality problems is to ensure that they have the opportunity and the incentive to help themselves and their borrowers. In particular, we must identify and remove obstacles that inhibit banks from successfully working with their borrowers to achieve mutually satisfactory loan workout plans.

Restructuring loan terms to make it possible for borrowers to repay their debts, even when a partial write-down of a loan is involved, is often in the long-run interest of banks and of their borrowers. Many bankers, however, have been reluctant to write down loans or to grant other concessions to borrowers because it reduces their capital levels. In particular, bankers fear that reduced capital levels could prompt regulators to direct them to build capital back up to historical levels immediately. In addition, they are reluctant to reduce capital because of the resulting lower lending limit.

The three federal bank regulatory agencies have recently taken several steps that will give banks the tools and the encouragement to effect long-term restructurings of problem credits.

Accounting Rules. Banks are encouraged to use the provisions of Financial Accounting Standards Board Statement No. 15 (FAS 15) to account for restructured debt. FAS 15 can, under certain circumstances, be used to account for concessions in financing terms (*i.e.*, reduction of either principal or interest) granted to borrowers experiencing financial difficulty without requiring the institution to record any losses.

FAS 15 has been in existence since 1977, but it has not been readily used by banks. Although it is of limited use in situations where an actual credit loss has been incurred, FAS 15 is applicable in some circumstances -- for example, when there are reasonable assurances that the borrower can perform under the new loan terms. We have recently called it to the attention of bankers by reiterating the manner in which it can be used.

Call Report Change. The agencies have approved certain changes to the call report disclosure requirements for restructured loans that will enable banks to distinguish those loans that, although restructured, are in compliance with the new terms. With these changes, such restructured loans will no longer be included in the category of nonperforming loans. Instead, they will be reported as restructured loans in compliance with the modified terms. We hope that these changes will remove what some bankers consider a disincentive to restructure problem loans.

Capital Forbearance. We have developed a capital forbearance program that we believe will encourage banks to write down problem loans and develop workout plans. The essence of this program is to encourage banks to recognize losses by allowing them to operate temporarily with lower levels of capital. Because a primary purpose of capital is to absorb unanticipated losses, we believe that banks with relatively high levels of capital should now use that capital as they attempt to overcome their current difficulties.

Capital forbearance will permit banks whose agricultural and oil and gas loans equal at least 25 percent of their total loans and leases to operate with primary capital that is below the minimum 5 1/2 percent primary capital-to-assets ratio but not less than 4 percent. For a bank to be eligible for capital forbearance, its weakened capital position must be largely the result of problems in the agricultural and/or oil and gas sectors. Banks must submit a plan for restoring capital by 1993, addressing, among other things, reduced dividend levels and limits on compensation. Moreover, participating banks must submit annual progress reports on their compliance with their capital plans.

We believe capital forbearance is a constructive response to the needs of banks and their borrowers during a difficult period of transition. For agricultural banks in particular, it is our hope that it will encourage them to take advantage of the Farmers Home Administration (FmHA) Debt Adjustment Program. Under this program, the FmHA guarantees up to 90 percent of a renegotiated loan on which the bank has made interest and/or principal concessions sufficient to enable the borrower to service the restructured debt.

Another attractive feature is that capital forbearance will primarily benefit banks that have sufficient earnings to absorb the charge-offs and to replenish capital. It will not, however, provide any support to those banks that have completely exhausted their capital, nor will it assist banks that have little or no prospect of returning to profitability. While these banks will continue to receive our supervisory attention, capital forbearance would only prolong their difficulties without improving their prospects for recovery, thus raising the potential liability to the FDIC.

In sum, for banks that are experiencing a drain on capital that is deemed to be temporary, our policy of capital forbearance is intended to provide a reasonable time within which to restore capital to adequate levels. With the benefit of temporary capital relief, bankers will have an incentive to recognize losses in their loan portfolios, work with agricultural and oil and gas borrowers to restructure loans, and rebuild their capital in an orderly, planned manner.

Lending Limit Change. To offset the decline in a bank's lending limit that occurs when it recognizes agricultural and oil and gas loan losses, we intend to amend temporarily our legal lending limit. The amendment would increase the general lending limit for national banks to no more than 20 percent of capital. The new limit would not increase any bank's legal lending limit above what it would have been had it not experienced losses from agricultural or oil and gas credits.

Need for Congressional Action

The measures we are taking should help banks that have been weakened by problems in the agricultural and oil and gas sectors, but our actions will not bring an end to bank failures. Therefore, we urge Congress to enact legislation that would assist the banking agencies in resolving failing bank situations and in reducing the deleterious effects that can result from bank failures.

In particular, Congress should amend the emergency acquisitions provisions of the Garn-St Germain Act of 1982. As this statement is being written, our Office, the Federal Reserve Board, and the FDIC are collaborating to develop specific recommendations regarding, among other things, significantly reducing the size threshold for eligible institutions and allowing the interstate acquisition of the assets of a holding company of a bank that is in danger of closing. Such liberalization would expand our alternatives for dealing with failing institutions and would help ensure the continued availability of banking services to communities hard hit by downturns in weak sectors of the economy.

NATIONAL BANK PERFORMANCE

It would be a mistake to confine our attention solely to those banks suffering from significant loan exposure to weakened economic sectors. A more serious and fundamental problem facing the commercial banking system is the mediocre performance of commercial banks in general.

The Office of the Comptroller of the Currency provided a detailed report on the overall condition of the national banking system to this Subcommittee last September. The performance trends that were described at that time, for the most part, have continued. Rather than recount all of the data provided at that time, I would like to take this opportunity to focus on one area of weakness, namely reduced earnings at a large number of banks. I believe the trends in bank earnings underline the difficulties all banks face in today's financial services marketplace.

The earnings and profitability of national banks are important determinants of their ability to weather economic volatility and to generate new loans. A bank requires strong, steady earnings to build the reserves needed to absorb losses that occur in the normal course of the business cycle. Furthermore, an attractive rate of profitability provides potential investors with a reasonable dividend yield and the prospect of capital appreciation, and thereby enhances the ability of a bank to raise external capital.

Unfortunately, the commercial banking system is becoming less profitable, both absolutely and relative to the risks banks assume. This trend of lower profitability is evident at banks of all sizes. Although the majority of the banking industry continues to generate adequate earnings, there is a growing minority of commercial banks with earnings that can only be characterized as poor.

A major problem commercial banks face, aside from the deterioration in the quality of their borrowers, is a reduction in their lending opportunities. The flight of the high-quality multinational corporations from the banking system to the commercial paper market is often cited as evidence of this development. We believe, however, that the same phenomenon is beginning to occur at the retail level. Nonbank competitors such as insurance companies, finance companies, securities firms, and thrift institutions are offering products such as individual retirement accounts, credit cards, car loans, home mortgages, and multipurpose investment and transaction accounts with features and interest rates that are enabling them to capture banks' most profitable and least risky retail customers. One reason these competitors can offer such attractive products is that many of them are less regulated than commercial banks; for example, thrift institutions operate with capital ratios that are significantly below those required of commercial banks. As a consequence, the traditional lending activities of banks are becoming more risky and less profitable.

A brief review of bank performance statistics will help illustrate why we are concerned. The average return on assets (ROA) for the 4,500 community banks (those with assets of less than $300 million) with federal charters declined in 1985 for the sixth consecutive year. Even the median ROA fell for this group of banks, demonstrating the scope of the earnings pressure.

Return on Assets
(National Banks with Assets less than $300 Million)

Year	Average	Median
1980	1.13%	1.15%
1981	1.12	1.12
1982	1.02	1.10
1983	0.91	1.03
1984	0.68	0.96
1985	0.53	0.92

In recent years, the percentage of banks with losses has grown, and the percentage of banks with high earnings (defined as a return on assets in excess of 1.5 percent) has fallen. Only one-third of the national banks that reported losses in 1985 were agricultural or energy banks.

High and Low Earners
(All National Banks)

Year	Percentage with Losses	Percentage with ROA over 1.5%
1980	3.0%	21.6%
1981	4.2	24.7
1982	6.5	21.8
1983	8.9	18.3
1984	12.2	14.3
1985	16.2	13.4

The median earnings coverage of losses for the largest national banks has declined in five of the past six years. A decline in this figure indicates that these banks' loan chargeoffs are consuming an increasing portion of their income.

Earnings Coverage of Losses
(National Banks with
Assets over $10 Billion)

Year	Coverage
1980	5.89 times
1981	5.36
1982	4.62
1983	3.41
1984	3.91
1985	3.73

Finally, deteriorating asset quality is a key factor in the decline in earnings. As the following table shows, loan-loss provisions as a percentage of assets have increased steadily since 1980 for national banks of all sizes.

Median Loan Loss Provision As a Percent of Average Assets
(All National Banks)

Year	Under $300 Million	$300 million-$1 Billion	Over $1 Billion	All National Banks
1980	0.17%	0.21%	0.25%	0.18%
1981	0.19	0.21	0.25	0.19
1982	0.24	0.25	0.33	0.25
1983	0.27	0.27	0.35	0.27
1984	0.33	0.30	0.39	0.33
1985	0.46	0.33	0.41	0.45

NEED FOR EXPANDED FLEXIBILITY

I believe that steps must be taken to give banks the flexibility to diversify their assets and sources of income, and to restructure their products and services efficiently and in line with changing consumer demands. If we do not take these steps, there exists the potential for a gradual erosion in the safety and soundness of the banking system.

Accordingly, Congress should consider fundamental changes in the statutory framework governing banks. In my view, banks need more flexibility to deal with changes in technology and demographics and with increased economic volatility. If they are not given that flexibility, banks will have little choice but to engage in greater risk-taking within the markets available to them. The likely result will be continued credit problems, pressure on earnings, and, over time, a continued reduction in the ability of the banking system to compete and deliver the products that consumers demand.

I believe that nonbank banks are a prime example of what can happen when the opportunities for banks to respond to marketplace changes are limited. For banking institutions, they represent an attempt to get around some obsolete restrictions. Although nonbank banks are imperfect vehicles for exercising greater flexibility, their use by banking and other companies constitutes a rational response to the restrictions now in place. Until those restrictions are removed, nonbank banks, or something similar, are likely to continue to grow. Comprehensive legislation granting banks the ability to adapt directly to a changing marketplace would make devices such as the nonbank bank unnecessary, and they would quickly disappear from the scene.

Thus, I urge you to consider legislation that would modernize substantially the laws governing permissible banking activities. Securities brokerage and underwriting, insurance, and real estate brokerage and investment powers would enable banks to offer a broad menu of products and services such as many of their nonbank competitors now offer, thus eliminating substantial inequities that now prevail among financial services providers.

While such expanded activities have often been viewed as primarily helping large institutions, I believe they would benefit smaller institutions as well. There are tremendous opportunities for small banks to act as brokers in offering financial products such as mutual funds, or to enter into joint ventures with other banks for the delivery of these products. All banks would be able to pursue profit opportunities in lines of business that are an integral part of today's financial services marketplace. Consumers would benefit from the increased competition in these areas. Banks would benefit by having access to alternative investments and new sources of income, thus providing needed diversification opportunities and making them less susceptible to a downturn in any given industry.

I am well aware of the argument that some of the activities proposed are unacceptably risky for banks. As the primary supervisor of national banks, I feel a keen sense of responsibility to see that these banks are operated in a safe and sound manner. But I do not believe that the way to achieve this is by keeping banks in a legal straitjacket. Rather, I believe the concerns that have been raised are manageable if we craft legislation outlining the manner in which commercial banks can conduct a broader range of activities.

The key safety and soundness issue arising from banks engaging in new activities is the degree to which a bank's capital or liquidity can be impaired by losses or other adversities associated with the new activity. In making that evaluation, it must be recognized that a multitude of business activities now prohibited for banks are less risky than commercial or consumer lending. To the extent that an activity exposes or is perceived to expose a bank to increased risk, there only remains the task of implementing safeguards to limit the exposure of the bank's capital.

There are a number of options for controlling banks' exposure to risk from expanded activities. The point I want to emphasize is that instead of debating which activities should be permitted, our efforts should be directed at how to structure the new activities so as to allow flexibility and still protect the bank. I think we will find that there are few, if any, activities that cannot safely be combined with banking.

CONCLUSION

Ultimately, the stability of the banking system relies on its ability to maintain public confidence. In spite of the barrages of bad news about banks that appear so frequently, our banking system remains stable. Most banks are well-managed and have the ability to work their way through problems they may be facing. Our capital forbearance program was designed to give banks the time to put their problems in agricultural and oil and gas loans behind them. Banks whose prospects for recovery are in doubt are given special supervisory attention in an attempt to restore them to health. For those that cannot recover, supervisory attention is directed at limiting the effect that their problems can have on the banking system.

The long-run stability of our banking system, however, hinges on banks having the flexibility to adapt to changes in their marketplace environment. We must commit ourselves to exploring -- and enacting -- measures that will enable banks to compete effectively and diversify prudently. Only then can we be assured that we have done what is necessary to engender a strong banking system that can continue to serve the needs of the public.

Chairman St Germain. What is the main reason for bank failures?

Mr. Clarke.

Mr. Clarke. Mr. Chairman, if you go back and dissect the bank failures that have taken place over the past 2 or 3 years, you, of course, find a variety of reasons, and it's hard to generalize. Certainly, among those reasons are mismanagement, insider dealing, imprudent lending standards——

Chairman St Germain. What do you mean by "imprudent lending standards"?

Mr. Clarke. Overexposure to loans that have not been properly documented, for example.

Chairman St Germain. Would that include loans on real estate where the appraisals leave a lot to be desired?

Mr. Clarke. To the extent that the loans are supported by inaccurate or unreasonable appraisals.

Chairman St Germain. And you would say that these are imprudent lending practices.

Right?

Mr. Clarke. Imprudent lending practices.

Chairman St Germain. I want to address that. You want to expand powers and say they will do it prudently. Now the reasons for these failures mainly are bad management and imprudent lending practices. I don't think insider dealing works into it that frequently. I think No. 1 is bad management and that No. 2 is imprudence.

At least that's our analysis going back about—oh, golly, many, many years, looking at bank failures—going back to the Sharpstown Bank in 1965. That was an imprudent lending situation where they lent money to that shopping center. So it usually vascillates mainly between imprudence and bad management. As I say, that's at least our analysis.

Mr. Clarke. Those are certainly important factors.

Chairman St Germain. Yes. And that's why when you said—if we give them these additional powers, they will exercise them prudently—well, it presents a quandary to this member because the prudent institutions are doing well. It's those that are acting imprudently or that are badly managed that have problems.

So I think maybe we ought to concentrate on good management and prudent lending practices.

Now let me ask you this. Talking about prudence and the excellent supervisory and regulatory agencies we have—you have heard of the 1982 situation involving Penn Square, Oklahoma; right?

Mr. Clarke. Yes, sir.

Chairman St Germain. And how did they get into trouble? Because they were into energy loans to the *n*th degree. And they conned other corresponding banks up the line to participate with them.

Would you look at that chart on the left of standard national credit, energy loans and commitments, that means shared national credit. Now those energy loans that you see on that chart, from the years 1977 to 1984, reveal a dramatic increase in outstanding energy loans and commitments. The classified are green and the weighted classified are red.

All right?

Wasn't that a warning in 1982 that we were having problems with energy loans, in the summer of 1982 when the Comptroller's Office and this committee looked very closely at Penn Square? And that being the case, how come that chart keeps going up and up and up as you go into 1983 and 1984? It's only in 1985 that you see a slight drop. But I think that with this decrease in oil prices, we are going to see another change; wouldn't you agree? Another upward——

Mr. CLARKE. Change in the level of classifications?

Chairman ST GERMAIN. Great.

Mr. CLARKE. Yes.

Chairman ST GERMAIN. Yes, sir. I suspect it may be going up; don't you, as a result of that?

Mr. CLARKE. I would think so.

Chairman ST GERMAIN. Did the Comptroller's Office take any steps to recommend to these institutions that they cool it on energy loans after 1982, when the bust began to hit, and the boom was over?

Mr. CLARKE. Let me respond in a couple of ways. First of all, a lot of the credits that you see in the banks today are credits that were already in place in 1982. And there's no doubt that as energy prices have deteriorated, some of those loans have become classified.

Chairman ST GERMAIN. The total energy loans, the commitments outstanding, in 1983, was $46 billion. In, 1984, there were $56 billion. So that means that they were making more loans; right?

Mr. CLARKE. Making more loans, yes, but a substantial——

Chairman ST GERMAIN. At the same time, classifications were rising as a percentage, from 1982, it was 0.53, 1983 it's 2.52, 1984, it's 2.88, and 1985 it's 2.71.

So to say that that happened because of loans already out there, I don't think is quite accurate because the figures show that they kept increasing their lending activities in this area.

And that's why I'm asking you what steps the supervisory agencies may have taken, if any, to say, hey, you'd better give some consideration to cooling it. As I have already said, these are shared loans.

That's a loan, am I not correct, where bank A makes the loan and then shares that loan with banks B, C and D, and other banks?

Mr. CLARKE. That's correct.

Chairman ST GERMAIN. Yes. So that means it's not only bank A that's affected, but the other banks that are sharing that are also affected.

Now do we have any information, as a result of our assistants telling us what has been done in telling them to cool it from one of your trusty assistants?

Mr. CLARKE. Let me continue, if I may, to answer the question, which I believe was what have the regulatory agencies done.

I think all of us have, in the course of examinations, cautioned banks against undue concentration in particular industry sectors, not just in energy loans. It's very difficult, though, to develop an absolute rule of thumb that in one bank a concentration is bad, whereas in another bank it's not. A lot depends on how well the banks do in structuring their loans, what kind of borrowers they have——

Chairman ST GERMAIN. Would you call that prudent management?

Mr. CLARKE. I would call it prudent management.

So it's very difficult to go into bank X and say that because they have more than 20 percent of their loan portfolio in loans to industry A, that's improper and imprudent. Those may be the best loans in the bank. On the other hand, you may go into bank Y, and those may be the worst loans in the bank.

Chairman ST GERMAIN. Well, let's stick with energy. Didn't Penn Square in that situation give a warning buzzer or red light, that wonderful computer system that was supposed to have been developed by the Comptroller's Office after Franklin National—did you ever read about that one?

Jim Smith said they spent millions developing this wonderful computer, an early warning system, where the red lights go on and the buzzers—you know, like Star Wars—go ping, ping, ping. Wasn't that working?

Mr. CLARKE. I would just suggest to you that there is no computer system that is going to be able to tell you anything other than concentrations in a particular area or levels of classifications or levels of nonperforming loans in the aggregate.

Chairman ST GERMAIN. Well, let me rephrase it. If the computer shows you that there's a high level of concentration, if a Penn Square shows you that the boom is over and the bust is beginning, how come the shared loans kept increasing after 1982?

Mr. CLARKE. Two factors.

Chairman ST GERMAIN. You couldn't ask those big banks to be more prudent? Is that it? You or your predecessor?

Mr. CLARKE. Two responses, Mr. Chairman. One, I think a lesson to be learned from Penn Square was that the loans made to energy borrowers were not, as a general rule, very well structured. I think history has shown that there were a number of loans that were not properly put together, not properly documented. The shared national credits, however are, as a general rule, extended to the very best of the energy borrowers, and those loans are generally well put together.

Chairman ST GERMAIN. Sir, weren't these shared national credits that Penn Square had? They sold off all those loans.

Mr. CLARKE. There's a technical difference. The Penn Square credits were loans originated by Penn Square and participated to other banks. Shared national credits are credits that are quite often comanaged by two or more banks who participate in the origination of those credits——

Chairman ST GERMAIN. But isn't it usually just one bank that does all of the work for them?

Mr. CLARKE. In the shared national credits, the banks are usually working together.

Chairman ST GERMAIN. Let me ask this. We look at the chart on the right—"Problem Commercial Banks By Type of Bank"—and you see the increase in the numbers of problem commercial banks 481 to 603 in December 1983. So in June 1983, there were 481. In

December, there were 603 and in June 1984, there were 671. By June 1985, there were 940. February 1986, 1,156.

Pretty steady increase. Do we know when it might stop? Mr. Clarke? Mr. Seidman? Mr. Martin?

Mr. CLARKE. While I have the floor, let me just say that I don't know when it will stop. Obviously, we are doing everything we can to——

Chairman ST GERMAIN. But the increase has been dramatic; hasn't it?

Mr. CLARKE. The increase has definitely been dramatic.

Chairman ST GERMAIN. Mr. Seidman, how's your crystal ball?

Mr. SEIDMAN. The increase continues, Mr. Chairman. It's over 1,200 now. We expect it to stay in that general area. As I said, the number is over 1,200 now and we expect it to stay in that general area at least for the year ahead.

In analyzing——

Chairman ST GERMAIN. Are you saying it's reached its cap at 1,200?

Mr. SEIDMAN. I wouldn't want to say it's reached its cap, but at this point, we don't see a dramatic increase in that number. And that is based on a bank-by-bank evaluation of our regional directors.

Chairman ST GERMAIN. And you can say that despite the drop in the price of oil and the problems of the farm banks?

Mr. SEIDMAN. Well, there are a number of other things that could happen that could change that scenario. But at our last survey, we didn't see a material increase.

If oil prices stay at the lowest levels they've been at for an extended period of time, then that could affect the number.

Chairman ST GERMAIN. What would be an extended period of time, in your view?

Mr. SEIDMAN. I would say 6 months to a year.

Chairman ST GERMAIN. Governor Martin?

Mr. MARTIN. Mr. Chairman, it seems that the number of banks depicted on your bar chart probably is still increasing, but increasing at a lesser rate. I don't think we are out of the woods yet, but it does not look as though we are facing a period in which there will be a great upswing in that kind of a measure.

Chairman ST GERMAIN. What you are saying is it wouldn't be a great outswing from what we have seen to date over the past 4 years.

Mr. MARTIN. I think the number of problem banks is still increasing, but at a much decreased rate over the last few years, sir.

Chairman ST GERMAIN. Mr. Annunzio.

Mr. ANNUNZIO. Thank you very much, Mr. Chairman.

Mr. Seidman, the FDIC provided a generous bailout for the Continental Illinois Bank. I supported that bailout because of the disastrous effect that closing the bank would have had on the Midwest. But I am becoming concerned about the decision to allow Continental to acquire through merger three other banks.

What really causes me concern is that the potential loss to the FDIC is now estimated to be much greater than originally estimated at the time the FDIC money was infused. Is it sound practice to allow a bank in such deep trouble to acquire new institutions? And how much will the acquisition of the new banks increase FDIC's exposure at Continental?

Finally, let me ask if you plan to allow Continental to acquire additional banks?

Mr. SEIDMAN. The matters that concern you, Congressman, also concern us. We have requested legislation that we believe, if passed, would put us in a far better position to handle a situation like the Continental Illinois situation and avoid some of those problems.

Mr. ANNUNZIO. Well, be specific. What legislation? These are borderline banks that they are acquiring.

Mr. SEIDMAN. Well, the legislation that we have proposed would allow us to take over the Continental Bank in a way that it would not be a bank competing in the private sector and therefore, it would not be in the business of acquiring other banks because it would be returned to the private sector.

The problem with the Continental Illinois situation, sir, is that we are trustees for the fund. We are substantial owners of Continental Illinois and therefore, we have a trustee's duty to maximize the value of Continental Illinois so that we can sell it back into the private sector and reduce those very large losses.

So that our position now is that prudent management by Continental Illinois is in the interest of the fund and all the banks in the country because if that prudent management creates a bank of value, and I think it is doing that, then we will have an offset when we sell that bank against the losses which we've recorded.

Mr. ANNUNZIO. I understand about the prudent management. But what I'm asking specifically, Mr. Seidman is, are you going to allow them to acquire any more banks?

Mr. SEIDMAN. I can't pre-judge that. The bank is managed by competent management and we do not try to manage the bank. I can say that we are very interested in having that bank move back into the private sector and are exploring that at this time. I can also say that any acquisitions they make will not increase the commitment of the FDIC.

Mr. ANNUNZIO. Don't you think that gives them an unfair advantage over other banks?

Mr. SEIDMAN. To some extent, I believe it does, in that they have been put into a very good capital position.

Mr. ANNUNZIO. That's what prompts me to ask the question because so many of the other banks in the area are complaining.

Mr. SEIDMAN. Yes, but——

Mr. ANNUNZIO. You make one bank happy and then you make six others unhappy.

Mr. SEIDMAN. But we ought to make the other 14,000 happy because what we are doing is increasing the value of an asset which they own—after all, the banks, in effect, own it—and we are going to offset a loss that they've sustained.

Mr. ANNUNZIO. Well, if the 14,000 other banks are happy, they sure don't know it, as far as I'm concerned. [Laughter.]

Mr. SEIDMAN. We will try to explain it to them. [Laughter.]

Mr. ANNUNZIO. That is your job.

Mr. SEIDMAN. Yes, sir. [Laughter.]

Mr. ANNUNZIO. Last month, Mr. Seidman, the Park Bank failed in St. Petersburg, FL. This is an old story. The FDIC sent in a liquidation team. One of the items that the bank had among its assets was an office with thousands of dollars' worth of furniture, including oriental rugs, inlaid desks, liquor cabinets, and other pieces of the finest furniture. Instead of selling this furniture, which is what a liquidator is supposed to do, this particular liquidator has taken all of these items to his office for his own personal use. [Laughter.]

Why did FDIC not sell this valuable furniture? Is it necessary for the liquidator to have such grand, beautiful furnishings in his office?

Mr. SEIDMAN. Well——

Mr. ANNUNZIO. And, you know, I understand it's a very common practice.

Mr. SEIDMAN. I am not familiar with that particular situation. But I can say this—in general, we try to use what's there because otherwise, we have to buy something for the people to sit on and work at.

So we tend to try to use what's there, and that would really come down to what that kind of furniture would probably bring if you just auctioned it off.

Mr. ANNUNZIO. I can understand it if there's an excess of furniture and you need it and you move it around. But I am talking about very, very expensive furniture.

My question to you is simple—is it necessary to have such high-priced, oriental rugs and all the rest that go with it?

Mr. SEIDMAN. Essentially, I think it will in due time be sold.

Mr. ANNUNZIO. It will be sold?

Mr. SEIDMAN. I would expect in due time we would sell it, yes.

Mr. ANNUNZIO. Well, I will tell you, if we're going to protect the FDIC fund, we'd better start selling some of this so that we can replenish the fund. The longer you hold some of this furniture, the older it gets, the more antiquity, the more its value.

Mr. SEIDMAN. We will explore that.

Mr. ANNUNZIO. One other question and I am through. I'm concerned about the overall liquidation operation of the FDIC, and I have been concerned about this for a longtime. At the hearings on Penn Square I was concerned.

In too many cases, it appears that your agency spends too much money in connection with the liquidation of failed banks. The Penn Square liquidation, as an example, is costing millions of dollars each month. And I understand that this is not an isolated case. I would like to see a report from your office on the expenditures of all current FDIC liquidation still in progress. I want to know how many oriental rugs and liquor cabinet situations are going on.

Will you please supply me with that?

Mr. SEIDMAN. I will supply you with the information. I can also inform you that the GAO, at our request, is doing an overall audit of the liquidation operation at this time, both the procedures and the individual operations.

It is a very difficult situation. We have come into the ownership of something like 11 billion dollars' worth of assets over the last 3 or 4 years. I am not sure that government is a particularly good place to try to be both a bill collector and a liquidator. And that's what we have become.

We are working very hard on trying to develop systems and that's part of the legislation that I have requested, so that we will take far less out of the banking system than we do now.

Mr. ANNUNZIO. Well, you keep talking about this legislation, where is it?

Mr. SEIDMAN. It's the recommendations that were in——

Chairman ST GERMAIN. You have no legislation?

Mr. SEIDMAN. Well, we are ready to present you with the legislation, yes, sir.

Chairman ST GERMAIN. Well, we are ready to receive it. [Laughter.]

Mr. SEIDMAN. OK. We are in agreement, then. [Laughter.]

Chairman ST GERMAIN. Don't be a bashful tiger here. [Laughter.]

Mr. Seidman, you really mean that that liquidator, if he didn't take the oriental rugs and the liquor cabinets and the art objects for use in his office, would have to go out and buy oriental rugs and art objects?

Mr. SEIDMAN. No, sir; that's not what I meant. I meant he would have to have something to sit on.

Chairman ST GERMAIN. All right. But an inlaid desk he doesn't need.

Mr. SEIDMAN. That's correct.

Chairman ST GERMAIN. But the damage to the inlaid desk could accrue to the detriment of the taxpayers and the FDIC fund. So I am sure at Park Bank there are a lot of desks that aren't inlaid, and those could be set aside.

So to answer Mr. Annunzio I say, that he needs something to sit on or to work on, naturally he does, or she does. But not the type of furniture that was ensconced in that particular building.

Mr. SEIDMAN. I agree with that.

Chairman ST GERMAIN. Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman.

Just to followup on the legislation that you have recommended, which isn't in final form yet. I did receive a letter this morning which was cosigned by you, Chairman Volcker, and Mr. Clarke, which made four recommendations as to what could be done to help failed or failing institutions.

One of them is the acquisition of the entire bank holding company. The others are changing "failed" to "failing," which I think is probably a good idea, a change in the threshold from $500 million to $250 million, and affording an out-of-State acquirer the same expansion rights as an in-State organization.

What does that mean? Does that mean that the State law would prevail there or would we have a Federal override in effect?

Maybe Mr. Martin could answer that. I don't know. Who recommended it? It was signed by Paul Volcker and you and Mr. Clarke.

Mr. SEIDMAN. I think I can comment on that.

The idea would be that there would be a Federal override of any restrictions that would be placed on an acquirer from out of State. So that an out-of-State acquirer would have the same rights as a bank that had acquired in-State.

Mr. WYLIE. Well——

Mr. **Martin**. But the override—pardon me, Congressman Wylie—the override is to provide parity subsequently between the acquirer and the competing banks within that State. If the competing bank can establish chain banking structures within the State—that is to say, the holding company can buy other banks and therefore make it into a statewide entity—so could the acquirer, once it was in that State.

If the competitors could branch in other States or could branch within the home county, then so could the acquirer branch in other States or within the home county.

Mr. **Wylie**. OK. That might be the most controversial section of your recommendation. In any event, that does clear it up. That sounds reasonable.

Are these changes—and I ask these questions advisedly for me—are these changes designed to protect, and I want you to listen and then answer rather specifically, the depositor, the uninsured depositor, the stockholders, the bank management, the financial system as a whole, the insurance fund?

Do you understand the thrust of my question? And I would like for you to be kind of specific, if you would.

Mr. **Martin**. I will start with the banking system, if I may, and then defer to my colleague.

It seems to us that it is in the public interest to further the entry into markets containing one or more failing or failed institution, however that is to be done. It is probably preferable that it be intrastate if there is an institution or set of institutions within that State to takeover the failing or failed institution.

Very often, as we have seen in recent years, there is no institution, competing institution, that is strong enough to takeover the failing or failed institution. Therefore, rather than let it go down to the detriment of the communities it serves and thus to reduce the competitive level in that State and to have the losses to the insurance fund, we have concluded that it is better to have an out-of-State institution come in and takeover that failing or failed institution.

So it is in terms of maintaining a safe banking system, or subsystem for a State or a region, that we would permit this to take place. reluctantly.

Mr. **Wylie**. Mr. Seidman? That's not a real specific answer to my question, but we will go on.

Mr. **Seidman**. Well, specifically it is not intended to help stockholders or management. It is intended to protect the insurance fund and thus, depositors. It is intended to prevent disruption in the economy of the community and particularly of the particular individuals doing business with the bank, either as borrowers or depositors. And, in general, it follows our basic approach, which is that under current conditions, since we are protecting depositors in all large institutions, or at least have, we would like to try to treat as many institutions as possible in the same way.

Chairman **St Germain**. Would the gentleman yield for half a second?

Mr. **Wylie**. Yes, I would be glad to yield.

Chairman St Germain. You know, I think what I just heard you say is that you are advocating a totally fail-safe system for banking.

Mr. Seidman. No, sir.

Chairman St Germain. That's what you just said because you said it's to keep the community served; that is, to keep the customers of those banks served, as though other banks couldn't serve them.

You are talking about a totally fail-safe system here.

Mr. Seidman. No, sir.

Chairman St Germain. Is that our solution to the dilemma of the insuring fund?

Mr. Seidman. No, sir; I only made the point that historically, we have, in fact, taken care of depositors in all large institutions, and that is a fact. And that certainly was what happened in Continental Illinois.

Given that, it's hard to explain to the people in Kansas why they shouldn't have similar treatment if a small bank fails in one of their cities.

Mr. Wylie. I have been given a note that my time has expired. But I wanted to follow up on a question that the chairman got into a little earlier.

Over the past 4 years, the FDIC has had a 10-fold increase in the number of bank failures to deal with. And I think we would have to say that the FDIC has coped with the problem very well, but not without some real problems during the interim.

You have been chairman now for about 6 months. Could you give us your present assessment of what you might have done differently in hindsight, and I understand anybody could have discovered America after 1492. But is there anything that you would have done differently or that would improve the operation as far as anticipating bank failures or what might happen?

Mr. Seidman. Perhaps I can comment on that by indicating what I think our principal problems are now that we are working on trying to correct.

Mr. Wylie. All right.

Mr. Seidman. One of them is that, clearly, as a result of this vast number of increases in failures, we have suddenly become the largest liquidating institution, I guess, in the world, with something over $11 billion in book value of assets.

This involves over 300 different liquidations and involves something over, I think, 140,000 accounts, 22,000 lawsuits, and is the kind of situation which is very difficult on the people involved with it, which are all the loan borrowers that we inherited when we took them out of the bank because they were classified.

And we have a very difficult administration to operate. It is hard to supervise. It is subject to abuse. It takes great cost in auditing. And it has all come on so fast that it is a very difficult management problem.

One of our major objectives is to change the way we handle bank failures by, one, preventing failures, if we can, through the failing bank systems so that we don't have to take a large number of assets out of the bank or by providing assistance in a way that the bank will continue, or by having purchasers take over all of the assets so that we maintain these assets in the private sector on an economically sound basis rather than having us become this huge liquidating agency.

That certainly is a key problem that has all come on the agency in the last 3 years and needs a lot of attention.

Mr. **Wylie**. It sounds like you have given the problem a lot of thought and I appreciate your answer.

Thank you very much, Mr. Chairman.

Chairman **St Germain**. You know, it sounds to me like you have an almost impossible task.

Mr. **Seidman**. It's difficult.

Mr. **Wylie**. Difficult.

Chairman **St Germain**. Therefore, how can you evaluate the prudent management practices of those people managing the other institutions? Is that possible?

Mr. **Seidman**. I believe that is possible. I think there are very good guidelines for sound management of banks.

Chairman **St Germain**. On the one hand, you are telling us about this monumental problem you have and now you say—and it is very difficult.

You know, your words are going to be inscribed in perpetuity here and you are going to hear them recited back to you in the months ahead.

Mr. **Seidman**. I am sure of that.

Chairman **St Germain**. Mr. Barnard.

Mr. **Barnard**. Thank you, Mr. Chairman.

Gentlemen, I would like to sort of get us back on track a little bit.

Mr. Seidman, of these 1,156 problem commercial banks, how many of that would you estimate come from the problems of farming, energy, and international lending?

Mr. **Seidman**. Well, approximately half of them come from farming. Almost the same number are involved with energy. But a lot of those are duplicates.

Some banks are——

Mr. **Barnard**. So, in other words, if you took out the farm banks and the energy banks, and even possibly some of the commercial aberrations in the commercial real estate area, then you would probably be down to, what, 481 or less?

Mr. **Seidman**. I believe, yes.

Mr. **Barnard**. So, now, the next question is, Governor Martin, you gave a very good report that showed that the banking industry in America was on a good, sound basis. I mean, are we saying that, generally speaking, the banking system is on a good basis, except for these unusual credits in the farm, energy, commercial real estate area?

Mr. **Martin**. I would add that some of the older manufacturing industry represents some problems for some banks, say in the Upper Midwest. But add that group and, yes, sir, I would agree that the system is sound. It has got some very substantial problem areas to work through.

Mr. **Barnard**. Do you agree with that, Mr. Seidman?

Mr. **Seidman**. I agree with that, except I would add that the LDC area also presents a problem.

Mr. **Barnard**. Now, gentlemen, let me ask you this scenario.

We are talking about—you can see how quickly this has happened. We are talking about prudent lending and prudent management. If either of you three were sitting at a bank 5, 6 years ago, and you were making farm loans, energy loans, could you have anticipated the situation as it is today?

Mr. **Martin**. I don't think that any of us are that perfect in forecasting. I think that those banks, though, that made farm real estate loans with loan-to-value ratios, say of 50 percent or less, are now in better shape than those boards of directors that let their managers lend at higher loan-to-value ratios.

So you can operate, to use the chairman's word, more or less prudently.

Mr. **Barnard**. Well, the next question will certainly be, then, why did the examiners or why didn't your agencies criticize those types of loans that were made at that particular time? Is that because the banking industry has so fewer problem loans in the farm area than the farm credit system?

Mr. **Martin**. I think it is because: first, none of us is perfect at forecasting, and second, we are always—as examiners—looking ex post. When we examine banks we are looking at the loans that they have put on the books in prior periods.

Mr. **Barnard**. But at this point in this hearing, banks are circumspect. Banks are circumspect from the standpoint of they don't have the ability to make prudent loans.

I mean, this is where we are right now, and maybe the regulators do not have the ability to discern whether they are making prudent loans or not.

Now somehow or another, we have got to get this position resolved before we get into the remedies, because if we don't, the remedies are just going to be ongoing from ad infinitum.

Mr. **Martin**. I agree. But as I tried to say in my testimony, over 95 percent of the agricultural loans are performing. There are 12,000-plus banks that are not on the problem bank list.

Mr. **Barnard**. Dr. Seidman, I would like to get all of you in on this particular thing. Again, the question is, if you were sitting on a bank 5 or 6 years ago, I mean, would these be prudent, well-managed institutions making these loans?

Mr. **Seidman**. A well-managed institution, in my opinion, would have diversification in its loans. They know that they can't predict what oil prices are going to be in 3 years. And those who are certain they are right usually get into trouble.

So the basic rule is that they have to have a diversification in their portfolio so that if there is a section that gets into trouble, it won't weigh down the whole bank, and as they see areas getting into trouble, they reduce those portions and increase others.

Mr. **Barnard**. Mr. Clarke.

Mr. **Clarke**. Congressman, I would generally agree with what has been said. I think one thing that has to be taken into consideration, however, is that the banker you hypothesized could not have anticipated the precipitous drop in prices that has occurred for some commodities, both in the farm area and in the energy area.

Mr. **Barnard**. This is what I am getting at. I mean——

Mr. Clarke. There's certainly blame to be placed on the shoulders of bank management who allowed their banks to become concentrated in these areas. You have to think about the markets that they serve, however, and recognize that many of those banks, particularly the agricultural banks, serve a market that is, largely, if not totally, dependent on the agricultural industry. And it's not just loans to farmers, but loans to people who depend upon the health of the agricultural economy for their existence. The same is true of many energy-dependent areas. When you have a precipitous drop in these prices, which is difficult for anyone to have forecast, it has a ripple effect that causes tremendous problems, as you know.

Chairman St Germain. Mr. Barnard, I might observe that we are in the area of the mystery of the holy trinity here, so we will need more time.

We'll recess to vote and then we will return.

[Recess.]

Chairman St Germain. Gentlemen, let me ask you a question while my colleagues get seated.

Vice President Bush is in the Middle East and he has been talking about the impact of low oil prices on banks. The Wall Street Journal this morning says, and I quote, "Vice President Bush said today some American bankers might be hurt if world oil prices remained low. Addressing an American association in Bahrain"—I'm not going to try to pronounce it—"where he is on the second leg of a four-nation tour of the Persian Gulf, Mr. Bush said, some bankers have told him that they would be hurt if prices stayed for any length of time below $12 or $15 a barrel."

Has he discussed this with you, Governor Martin.

Mr. Martin. No, sir, not to my knowledge, we have not discussed it with the Vice President.

Chairman St Germain. Mr. Seidman.

Mr. Seidman. No, I have not discussed it with him.

Chairman St Germain. Mr. Comptroller.

Mr. Clarke. No, sir.

Chairman St Germain. By the way, that is really campaigning for the New Hampshire primary; isn't it? Trying to get the price of oil up in New England. [Laughter.]

Mr. McKinney.

Mr. McKinney. Gentlemen, I have to say that I greatly admire your ability to pick up the pieces dropped by greed across America because the chairman's failure chart is nothing simple. It is not bad management. It's anything else. We will just call it greed and stupidity.

One of the problems I have, Mr. Clarke, is that banks always want to compete. And yet, they don't seem to be banking very well. How do you put the two together in a political sense so that I can say, deregulate, deregulate. But what's deregulated isn't working very well.

Have you got any suggestions?

Mr. Clarke. I think you raise a very excellent question and certainly one that deserves an answer.

I think that you have to keep in perspective the problems that the banking system is having right now. There is no doubt that the number of problem banks has been increasing. There is no doubt that the chart over on the wall very graphically demonstrates the increase in criticized assets. And there is no doubt, as we have talked about this morning, that there are banks and bankers that have engaged in very imprudent practices. On the other hand, there are 15,000 banks in the country, and, proportionately, the number of those banks that are on the problem list or the number of those banks that are failing is relatively small.

It seems to me that you ought not to tag all of the banks in the country with whatever mismanagement responsibility exists in those banks that are having problems because of mismanagement. You ought not to penalize the bankers who are doing a good job in managing their banks and whose banks are not on the problem bank list and are not having any difficulty by not allowing them to get into these other activities and compete. This is especially so when you focus on the fact that some of the things that they are asking to do are really just allowing them to get back into markets that they used to have that have been taken away from them by other nonbank competitors.

Mr. McKinney. Yes, it is difficult, though, politically. I think everybody has to understand it. And it's even more difficult for me to understand, how during a weekend at home, I hear executives of ITT, who at that point had taken over Hartford Casualty and were bleeding to death, telling me how awful the casualty business is. Then I sit here on the very next Wednesday morning, and listen to a banker tell me how much they want to be able to get into the casualty business. This was several years ago but the same thing still happens.

Well, in the meantime, they are having trouble with the farms, with oil, with foreign loans, I mean, remember Continental Illinois. I remember going without sleep for 3 weeks to give a loan guarantee to the Chrysler Corp. Mr. Moorhead of Pennsylvania and myself were basketcases by the time the thing was over, and the Chrysler loan guarantee was a drop in the bucket, compared to our friend up at Continental Illinois, which in the long run, is actually going to cost us money.

But it's a problem, I think, that's got to be addressed. We cannot be for incompetence or greed and more deregulation. And it is something that I am worried about.

Mr. Clarke. When we talk about deregulation, it is important to keep in mind that deregulation means doing away with barriers to bank's being able to participate in these activities. It does not mean less attention to banks by bank supervisors.

Mr. McKinney. Well, that brings me to the next gentleman, since I'm limited to 5 minutes. You and I will be seeing each other a great deal, I have a feeling, unless the D.C. City Council straightens out on D.C. interstate banking.

They want to put you out of their business. But we will talk about that later.

Mr. Seidman, I want to, for the record, talk a little bit about your remarks at the end of your testimony about OMB, because I could not agree more that OMB has no right in your bailiwick, any more than it does in Mr. Martin's. But particularly in your case. You are paid for, as Mr. Martin is, by the private sector and the industry that you are overseeing, and that industry is in severe trouble and if anything else, you probably have to increase your budget.

Is that correct?

Mr. **Seidman**. That is correct.

Mr. **McKinney**. And you don't get any Federal funds, do you?

Mr. **Seidman**. None.

Mr. **McKinney**. And by trying to keep FDIC funds down, you save the taxpayers' but every taxpayer eventually ends up paying for it through the costs of bank fees, and bounced check charges, and all the other miscellaneous expenses. Right?

Mr. **Seidman**. Correct.

Mr. **McKinney**. Are you going to send us legislation to make it a law that OMB minds its own business?

Mr. **Seidman**. We would be delighted to do that, yes, sir.

Mr. **McKinney**. Thank you. [Laughter.]

Chairman **St Germain**. Mr. LaFalce.

Mr. **LaFalce**. Thank you, Mr. Chairman.

Gentlemen, I have introduced legislation today that would do the following six major items. I ask for your quick opinion, yes or no, or very limited statements, on behalf of these.

First of all, eliminate the required bidding order for emergency acquisitions of banks and thrifts.

Second, permit emergency acquisitions of banks that have assets of $100 million or more and are either closed or in danger of closing.

That differs from your $250 million—you said $250 million or more.

Three, allow emergency acquisitions of agricultural banks, defined as those banks with 25 percent or more of their loan portfolios in agricultural lending, without regard to their asset size, because virtually every single agricultural—not every single, but almost all, are considerably lower than $500 million, $250 million, or $100 million. But only for a period of 3 years.

Four, permit emergency acquisitions of problem thrifts before they are actually in danger of failing.

And, five, make the emergency acquisition procedures permanent, with the exception of the special treatment for agricultural banks, which would sunset after 3 years.

And, six, extend the net worth certificate program for 3 years.

We are close to agreeing, I think. What within my bill do you approve of? And is there anything in there that you disapprove of? Mr. Martin.

Mr. **Martin**. Congressman LaFalce, I think we could generally endorse the thrust of your proposed legislation. I would not want to speak on the thrift question because as an ex-Chairman of the Federal Home Loan Bank Board, I try not to get in the way of——

Mr. **LaFalce**. OK. But what about the required bidding order, eliminating that? Do you agree with that?

Mr. **Martin**. I think that I have some trouble with that. In that I like to see, as I said before, an intrastate acquisition wherever possible. But it could be that the bidding procedure is not perfect as it's being administered.

Mr. LAFALCE. Mr. Seidman? "Seedman?" "Sideman?" Which is correct?

Mr. MCKINNEY. I misstated it. I apologize.

Mr. SEIDMAN. We generally make it "Seedman," but whatever you would wish to address me, I will respond.

Mr. LAFALCE. OK, good. Bill.

Mr. SEIDMAN. Thank you. I think, in general, the thrust of where you are going is the same direction that we are going and some of the things are matters of degrees.

With respect to the first thing, which we call the hoops——

Mr. LAFALCE. Yes.

Mr. SEIDMAN [continuing]. I think they are a reasonable protection for the in-State banks. We have recommended that we continue those, at least for some period of time.

Mr. LAFALCE. OK. Mr. Clarke, what about the hoops?

Mr. CLARKE. I agree that they are a reasonable protection for in-State banks. I do think, though, that we should make every effort to try to reduce the number of impediments that we place in the way of someone who is prepared to come in and put capital into a failing organization. I don't know that I would do away with them, but if there is any way that they could be simplified——

Mr. LAFALCE. The bill you are talking about, what are you going to do about the hoops?

Mr. SEIDMAN. We are recommending that they be continued, as they were in the 1982 act.

Mr. LAFALCE. Well, wait a minute now. Mr. Clarke just said they ought to be simplified. You have got too many impediments in the way. Mr. Martin says they have got too many impediments in the way.

So you are not just going to say leave them. That means you will just leave the problem, what you see as the problem. Right?

Mr. SEIDMAN. We have recommended that the same hoops or the same chances for in-State banks to bid be continued in the new powers that we have asked for, yes.

Mr. LAFALCE. So the same problems that presently exist with that you say we will keep them on.

Mr. Clarke, what do you think of that?

Mr. SEIDMAN. We have not yet found that to be a major problem.

Mr. LAFALCE. Mr. Clarke.

Mr. CLARKE. My understanding is that in the legislation we have been working on, and we really have been working on it, it is hard to get all of these things done within the course of 1 day.

Mr. LAFALCE. Yes.

Mr. CLARKE. I thought the hoops were left in for assisted transactions and not for——

Mr. SEIDMAN. Well, I was just referring to assisted transactions, the ones that we participate in. The other ones are between these two gentlemen.

Mr. CLARKE. There would not be any hoops, as I understand it, in the legislation governing unassisted acquisitions as we are drafting it.

Mr. LAFALCE. So you want to eliminate the hoops for unassisted transactions.

Mr. **Clarke**. There aren't any hoops in place now as far as cross-State holding company acquisitions go, anyway. We would just propose cross-State acquisitions of holding company systems and cross-State acquisitions of banks without assistance without any hoops.

Mr. **LaFalce**. We are going to have to talk about how the bidding takes place. I'm a little confused as to what you are doing. And I am certainly confused as to the need for the hoops.

What about the $100 million, which I would propose—do you have a problem with the $100 million figure?

Mr. **Martin**. The lower the better.

Mr. **LaFalce**. The lower the better. Bill.

Mr. **Seidman**. It would certainly be acceptable to us.

Mr. **LaFalce**. Mr. Clarke.

Mr. **Clarke**. It would be to us, too.

Mr. **LaFalce**. OK. What about agricultural banks? No asset side for agricultural banks.

Mr. **Martin**. I confess having some problems with that one, but——

Mr. **LaFalce**. How are you going to reach the preponderant number of agricultural banks if you have got a $250 million figure?

Mr. **Martin**. I don't think that $250 million is the figure.

Mr. **LaFalce**. $100 million is not even the figure. I mean, you are not going to reach them. Most of them average around $30 million, don't they?

Mr. **Martin**. They are very small banks.

Mr. **LaFalce**. So what do you do, Bill?

Mr. **Seidman**. Well, I think the answer to that is that very few of those banks will be subject to interstate acquisition. The primary market for those banks is intrastate through the States allowing branching and other ways for the banks in the State to acquire them.

They are the natural market.

Mr. **LaFalce**. Mr. Clarke.

Mr. **Clarke**. I would agree with that.

Mr. **LaFalce**. My time has expired. Thank you.

Chairman **St Germain**. What you are saying is that a Chase, Manufacturers, Chemical, Citi, Bank America, is not too interested in buying a $30 million agricultural bank in Iowa, are they, or Nebraska?

Mr. **Clarke**. My guess would be that they are not.

Chairman **St Germain**. Mr. Hubbard.

Mr. **Hubbard**. Thank you, Mr. Chairman.

Chairman **St Germain**. You can ask about Kentucky now.

Mr. **Hubbard**. Right. Thank you, Mr. Chairman.

And it is a good one. All three agencies representing—what you represent have issued regulations and guidelines intending to ease the farm bank situation. We will hear soon from other members who represent urban areas. But as the chairman suggested and underlined, I represent a rural area and would like to ask you about legislation which has been introduced before this Congress to address the farm situation.

Could I ask each of you, and I do ask each of you. what is your position on the following elements of House legislation which deals with farm bank problems?

No. 1, extending the net worth certificate program to cover farm banks and permitting farm banks to book losses on agricultural loans and collateral over several years.

I would want you to be reminded by this Member that the farmers of this country are in deep trouble, and our lending institutions in the farm areas are also in trouble, as you know.

What would be your opinion concerning these two suggestions to ease this problem as brought forth through legislation already in this Congress?

Mr. MARTIN. Mr. Hubbard, if I could begin. With regard to the net worth certificates for farm banks, our agency would much prefer to utilize the technique of capital forbearance rather than net worth certificates. In the capital forbearance situation, we would go along with banks in sound condition with good prospects that temporarily, while they work their way through this farm depression—and that's what it is, not a recession—would have to operate with lower than 5½-percent, primary capital.

That way, the public gets a financial statement that's prepared on a GAAP basis, and, they can understand better what is going on in the bank.

So, to take this one step at a time, we would not be encouraging the use of the certificates in this situation.

Mr. HUBBARD. Mr. Seidman.

Mr. SEIDMAN. I agree with that. The forbearance program has the same basic effect. I think administratively it's much easier to handle and it gives the farmer everything that a net worth certificate, or the farm bank everything that a net worth certificate would give them.

As far as the accounting, FASB 15 gives the banks the right to restructure loans and report any reduced value over the period of the loan, which is GAAP accounting, and I think takes care of a great number of their problems.

For those losses that are true losses, it seems to me that the proper answer is to, in fact, write them off against capital, but to provide capital forbearance so it doesn't impair the operation of the bank.

Mr. HUBBARD. Mr. Clarke.

Mr. CLARKE. I concur with both of those statements because those are exactly the reasons that we implemented the capital forbearance policy that was sent out to all of the banks within the last 10 days.

Mr. HUBBARD. What about the legislation to permit farm banks to book losses on agricultural loans and collateral over several years?

Mr. MARTIN. I think that depends on what kind of a loan it is. If it is a real estate loan, there may be some compelling arguments to defer a loss. If it's any other kind of loan, a production credit loan or any other short-term, inventory-like loan, I don't think it's a very good idea.

In general, the deferred loss accounts that are on the books of thrift institutions have given them problems. And, again, there is a question of whether, when you have deferred losses as an asset, you're being forthcoming about your financial condition. I think it's dangerous.

Mr. HUBBARD. Mr. Seidman.

Mr. SEIDMAN. I think that really—I agree with that and my previous comments addressed that also.

Mr. CLARKE. The capital forbearance plan is really just the flip side of that. It has the banks go ahead and recognize the loss so that it shows up on the financial statement, but then allows the banks to build back their capital over a 7-year period. You get to the same place, but with a better accounting treatment.

Mr. HUBBARD. Do you believe these changes you suggest will immediately and directly benefit the small community banks and their borrowers or will this be long range?

Mr. MARTIN. I think we have, each of us have communicated with our examiner staffs. In our own case, we have been retraining and double training our examiner staffs in this direction for some time.

We are not waiting, in our case. I am sure the other two agencies are not, either. It's immediate.

Mr. SEIDMAN. I believe it will be of direct benefit. It will be a small percentage at the banks, but only a small percent are really in trouble. I just returned from Oklahoma and a meeting with the bankers and I think it was clear from their response there that it's going to be of aid to those who have serious difficulties.

Mr. HUBBARD. Let me assure you that in my own district, there's a growing number of banks which are in difficulty and, hopefully, you will be reminded of that as we look at the agriculture picture across the Nation.

Last, I would urge you to try to do everything you can to keep interest rates as low as possible because this is one of the main keys to keeping the farm economy going as good as we can in the near future.

My time has expired, Mr. Chairman. Thank you.

Chairman ST GERMAIN. Thank you. Mr. Bartlett.

Mr. BARTLETT. Thank you, Mr. Chairman.

I'm supportive of the forbearance types of actions that you have described. I want to switch over to your proposals, your recommendations for the expansion of Garn-St Germain, particularly with regard to the interstate acquisitions.

I have to tell you, I have approached this subject somewhat reluctantly, reluctant to open another loophole in the interstate acquisition. And yet, from listening to your testimony and reviewing the data, I am rapidly coming to the conclusion that such an action may be required to prevent a crisis.

I wonder if you could describe for the subcommittee, options other than that which may be available and describe the kind of urgency that you would attach to that part of your recommendation; that is, the expansion of Garn-St Germain to interstate acquisitions of a bank holding company.

Mr. MARTIN. Well, one obvious alternative which to me is much less desirable from a public policy point of view, would be to permit manufacturing companies, retailing companies, and other commercial companies to enter into banking by acquiring problem institutions.

I think that is less desirable. It raises all kinds of questions of conflict of interest, of self-dealing, and so forth.

My experience of 10 years in bank and savings and loan supervision is that if one of those institutions takes over a failing or failed institution, they find at least $2 million of problems for every $1 million they thought they were looking at when they bought the institution.

Let's encourage them to solve the problems for the public.

Mr. Bartlett. Mr. Clarke, I wonder if you could address, in your opinion, the urgency of this particular expansion.

Mr. Clarke. First, let me comment that all three of us approach the idea of emergency acquisition of banks across State lines from a philosophy of genuinely wanting to help solve problems that may exist, not as some backdoor attempt to achieve interstate banking.

The definition of a failing bank has not been finalized yet, at least from our viewpoint, although we are close. Every effort is going to be made to build safeguards into whatever legislation we might propose to this subcommittee to be sure that banks are protected from people just rolling in and attempting to effect an interstate acquisition for its own sake rather than for the sake of helping the industry.

As to the urgency, I think that all of us would like to have the additional authority as soon as possible because it's a tool that we would like to have available. I can't tell you that we have to have it by this time next week or the following week because nobody can predict when, if ever, the authority might be utilized.

Mr. Bartlett. Mr. Seidman.

Mr. Seidman. Well, I agree with the fact that we ought to have these powers as promptly as we can and only history will be able to tell us whether we got them in time or not. It may turn out to be a very important thing to have had these powers. But no one can tell that for sure.

Mr. Bartlett. Let me explore with you a little bit the definition of failing which you are all three grappling with.

It seems to me that we ought to define in the legislation as much as possible, or at least in the regulations in the committee report, that definition in a rather tight way, and I would make a couple of inquiries as to what you have in mind.

Would you include, for example, both solvency and liquidity? Would you include for the large bank holding companies, anyway, would you include a requirement that the discount window, the loans at the discount window essentially be at the limit of what the Fed feels comfortable with?

Who would you provide to be the lead determinant? One of the three agencies or would all three agencies have to agree, and what would be the role of the State banking commissioner or his equivalent of the chief State banking supervisor of the State?

Four different questions.

Mr. Martin. I would certainly suggest that liquidity as well as solvency be included in the criteria that might be written into the statute.

I should not try to answer all four of these.

Mr. Bartlett. Would you have a requirement that the discount window, the loans at the discount window——

Mr. Martin. No, I would not have that requirement there. My experience has been, again, that you can see by the spreads in the market the impending difficulties—that is, the given institution is having to pay a higher and higher spread above what is common in the market, and they haven't come to the discount window yet. I don't see any reason to wait for discount window access.

Mr. **Seidman**. I think one of the key questions is who determines this. And it seems to me that if it's a State-chartered institution, then the State should be importantly involved in that decision, along with the FDIC, if it's an assisted transaction.

I think we need to work out exactly how that language is put together. But I think the State should be an important part of the proposition and I agree that both liquidity and solvency should be considered, as well as any other likely action that the State might take under State laws.

Mr. **Bartlett**. Mr. Clarke.

Mr. **Clarke**. The precision with which you draft that definition, on the one hand, obviously benefits the banks who are concerned about under what circumstances they would be deemed to be failing. But on the other hand, it can substantially inhibit bank supervisors who are trying to effect a solution to a failing bank situation. There's that obvious tension. While I am supportive of having the definition be as precise as possible, I really hope we can leave enough opportunity for judgment in there so that, when necessary, we can exercise that judgment.

Mr. **Bartlett**. Thank you. My time has expired. I would comment that I think that the more precise legislation we can pass would be preferable and the legislation would include judgment. But we ought to say what we mean on the front end in terms of quantifiable.

Thank you.

Chairman **St Germain**. Gentlemen, all of you presented a chart that says that—well, it's on page 23. It's a ratio of weighted classifications of percent of bank capital. But the most important data in that chart seems to indicate that energy loan problems are declining.

Now I will ask all three of you this same question and just give me an easy answer, gentlemen. Regardless of the chart, is the energy-lending situation improving or worsening? Please, give me a thumbs-up-or-thumbs-down response.

Mr. **Martin**. Down.

Chairman **St Germain**. Mr. Martin, is the energy-lending situation improving or worsening?

Mr. **Martin**. Worsening.

Chairman **St Germain**. So that's a thumbs-down. Mr. Seidman?

Mr. **Seidman**. I agree.

Chairman **St Germain**. Mr. Clarke.

Mr. **Clarke**. I want to be sure I understand your question. Are you asking whether the number of energy loans is decreasing as depicted on that chart?

Chairman **St Germain**. My question to you—now you look at me rather than the chart—is the energy-lending situation, improving or worsening?

Mr. **Clarke**. I think it's worsening.

Chairman **St Germain**. OK. So we have got three thumbs-down. That's all I wanted to know.

Mr. HUBBARD. Mr. Chairman, could I ask a question?

Chairman ST GERMAIN. Mr. Hubbard?

Mr. HUBBARD. Thank you, Mr. Chairman.

I have introduced H.R. 1559. I will ask you this by letter, but in this hearing I would ask you to please give me a written response as to this Agricultural Bank Capital Assistance Act which would authorize the FDIC to purchase net worth certificates from banks with 20 percent of their loans to agricultural borrowers and would extend the net worth certificate program for 3 years.

I don't ask at this time that you respond to that again because my time has expired, but I would like for you to give me a letter on that. But I will remind you by a letter to your offices.

Thank you.

Would you agree to each give me a letter on that?

Mr. CLARKE. I would be pleased to do so.

Mr. SEIDMAN. Yes.

[In response to the request of Congressman Hubbard, the following letters with attached information regarding H.R. 1559, was received from Messrs. Martin, Seidman, and Clarke:

CARROLL HUBBARD, JR., KENTUCKY, CHAIRMAN

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U.S. HOUSE OF REPRESENTATIVES
NINETY-NINTH CONGRESS
SUBCOMMITTEE ON GENERAL OVERSIGHT
AND INVESTIGATIONS
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ROOM B-304 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

April 9, 1986

Honorable Preston Martin, Vice Chairman
Federal Reserve Board
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Preston:

I want to take this opportunity to again personally thank you for testifying today before our Financial Institutions Subcommittee. Your comments were most insightful and will prove valuable in our consideration of legislation during the coming months.

As I indicated to you at today's hearing, I would appreciate your additional thoughts with regard to H.R. 1559, the Agricultural Bank Capital Assistance Act. I introduced this bill last March in an effort toward providing a means of assistance to farm banks through the extension of the net worth certificate program to certain qualified institutions. I look forward to your response and to learning in detail of your agency's position on this legislation.

Thank you for your cooperation.

With best wishes for you, I am

Sincerely yours,

Carroll Hubbard

CARROLL HUBBARD
Chairman
Subcommittee on General
Oversight and Investigations

CH/gmc/ps

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

PRESTON MARTIN
VICE CHAIRMAN

April 30, 1986

The Honorable Carroll Hubbard
Chairman
Subcommittee on General Oversight
and Investigations
Committee on Banking, Finance
and Urban Affairs
House of Representatives
Room B-304 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Hubbard:

Thank you for your letter of April 9 in which you asked me to comment on H.R. 1559, the Agricultural Bank Capital Assistance Act, which you introduced in March of this year. Your proposal, as I understand it, would help raise capital for farm banks whose capital positions fall below regulatory standards. These banks could do so by advancing net worth certificates to the FDIC in exchange for the Corporation's promissory notes.

Let me begin by saying that I share your concerns about the current problems of our farmers and farm banks. Thus, I am happy to report that the Federal Reserve, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation recently agreed on a set of supervisory policies to help alleviate these problems. I have enclosed a copy of the joint policy statement that outlines these new supervisory policies.

Although the three agencies considered a net worth certificate program, they elected not to adopt such a program. They opted instead for a capital forbearance policy. This policy allows farm banks which are experiencing temporary problems to operate at capital levels below regulatory standards while they work to overcome these problems.

I favor this program over a net worth certificate program because it provides a capital-short bank with time to rebuild its capital while retaining the credibility of regulatory accounting statements. By contrast, the use of net worth certificates would impair the credibility of regulatory accounting statements and cause public confusion because such statements would show higher levels of capital than would be shown on statements prepared under Generally Accepted Accounting Principles.

I might add that neither approach -- net worth certificates or capital forbearance -- is adequate in more extreme cases in which a bank's capital position is irreversibly eroded. Under such conditions, a more lasting solution, such as a merger with a stronger institution, is necessary.

I hope you find the agencies' joint policy to be satisfactory. Please let us know if we can be of further help.

Sincerely,

Preston Martin

Preston Martin

Enc.

Joint Statement of the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency on Regulatory Policies Toward Agricultural Lenders

The Federal bank regulatory agencies are fully aware of the problems in the agricultural sector of our economy and the financial strains these problems have created for borrowers and lenders. In light of these conditions, the banking agencies believe it appropriate to employ supervisory policies that will assist basically sound, well-managed banks to weather this transitional period, consistent with the need to maintain an adequate supervisory framework and the credibility of regulatory and public financial statements. Supervisory and regulatory policies to help achieve these objectives are outlined below.

In addition to the regulatory policies contained in this statement, the banking agencies continue to urge the Congress and state legislatures to take steps to help maintain the provision of banking services in small communities. The Garn — St Germain Act of 1982 prohibits acquisitions across state lines of troubled banks before they have failed and of failed banks with assets under $500 million. The banking agencies believe that these two constraints should be eased by allowing failing bank acquisitions across state lines and by reducing the size criteria so as to maintain the banking services in farm

communities. An easing of state restrictions on branching could also help maintain banking services in small towns in cases when a separately organized and capitalized bank might not be viable.

In order to help alleviate strains on farm lenders and provide additional time to resolve problems in the agricultural sector, the banking agencies express their support for and commitment to the following supervisory policies and principles:

- A major function of capital is to absorb unanticipated losses and help an organization weather a period of adversity. Heavy losses may reduce a bank's capital below normal levels or below minimum regulatory guidelines. The banking agencies will allow a bank experiencing difficulties to operate below the minimum capital requirement provided the bank has the capacity to restore capital within five years.

- The banking agencies reaffirm their policies not to discourage banks from forbearing on farm loans through appropriate debt restructurings, recognizing that such restructurings may be in the interests of both the bank and the borrower when there is a reasonable prospect that the borrower will eventually be able to repay the loan.

- Consistent with their general view toward forbearance, the banking agencies will continue not to require an automatic charge-off of loans that have been restructured. Generally accepted accounting principles, as set forth in Financial Accounting Standard No. 15 (Accounting by Debtors and Creditors for Troubled Debt Restructurings), allow financial institutions to maintain the value of a restructured credit provided that the total of anticipated future cash receipts under the new modified terms which are both probable and can be reasonably estimated at least equals the principal value of the loan. Thus generally accepted accounting principles do not necessarily require the immediate charge-off of loans or portions of loans that have been restructured in accordance with that rule.

- The banking agencies see no compelling reason for interpreting or reporting renegotiated debt with nonperforming loans. In line with this view, the agencies propose to modify regulatory reporting and disclosure requirements for restructured debt so that such debt, if it is performing in accordance with the new terms, would be designated as loans "Restructured and In Compliance With Modified Terms."

CARROLL HUBBARD, JR., KENTUCKY, CHAIRMAN

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OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ROOM B-304 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

April 9, 1986

Honorable L. William Seidman, Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Bill:

I want to take this opportunity to again personally thank you for testifying today before our Financial Institutions Subcommittee. Your comments were most insightful and will prove valuable in our consideration of legislation during the coming months.

As I indicated to you at today's hearing, I would appreciate your additional thoughts with regard to H.R. 1559, the Agricultural Bank Capital Assistance Act. I introduced this bill last March in an effort toward providing a means of assistance to farm banks through the extension of the net worth certificate program to certain qualified institutions. I look forward to your response and to learning in detail of your agency's position on this legislation.

Thank you for your cooperation.

With best wishes for you, I am

Sincerely yours,

Carroll Hubbard

CARROLL HUBBARD
Chairman
Subcommittee on General
Oversight and Investigations

CH/gmc/ps

FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF DIRECTOR - DIVISION OF BANK SUPERVISION

[illegible]

April 30, 1986

Chairman Carroll Hubbard
Subcommittee on General Oversight
and Investigations
Committee on Banking, Finance and
Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

You will be pleased to know that the FDIC and other Federal banking agencies have adopted a capital forbearance program which embraces the central feature of the net worth certificate proposal in H.R. 1559 and about which you wrote to Chairman Seidman on April 9. I am enclosing for your information a copy of Bank Letter 12-86 dated March 27, which describes the forbearance program in detail. Also enclosed is a copy of Bank Letter 15-86 dated April 11, which describes accounting standards that may preclude an agricultural bank from recording losses and reducing capital in connection with restructuring loans and is a topic I thought would be of interest to you.

Sharing your concern for the poor financial condition of a number of agricultural banks and for equally hard-pressed energy banks, we had evaluated possible FDIC courses of action appropriate to those segments of the banking industry, including the possibility of net worth certificates. As a result, we concluded that a capital forbearance program was the most effective course. It achieves the objective and avoids some negative aspects of the certificate program.

As with net worth certificates, the forbearance program's goal is to provide time for a bank to work its way out of trouble. In contrast with certificates, forbearance is administratively more simple and can be started and wound up more quickly with respect to a given bank. From the public's point of view, forbearance avoids the element of distortion that certificates cause in a bank's financial statements inasmuch as the exchange of IOUs for bank certificates has no positive effect on a bank's operating resources.

Like the net worth certificate program, forbearance is predicated on a plan that reasonably assures restoration of capital. Unlike certificates, forbearance would result in a bank failure sooner if the plan proves unworkable and capital is consumed rather than restored. This is a desirable consequence. Prolonging helpless situations only runs up losses. Also, it postpones the beneficial effect from the injection of substantial lendable cash into the local community in exchange for the failed bank's poor assets whenever the FDIC can arrange a purchase and assumption transaction rather than paying off depositors.

In conclusion, H.R. 1559 appears to reflect a view shared by some agricultural bankers that the FDIC requires additional capital whenever there is a significant drop in capital to a level that nevertheless is above the standard minimum of six percent. For a sound, well-managed, diversified bank this is an incorrect perception and is not supported by actions taken by the FDIC.

Sincerely,

Robert V. Shumway

Robert V. Shumway
Director

Enclosures

FDIC FEDERAL DEPOSIT INSURANCE CORPORATION, Washington DC 20429
OFFICE OF THE CHAIRMAN

CAPITAL FORBEARANCE

BL-12-86
March 27, 1986

TO: CHIEF EXECUTIVE OFFICERS OF
INSURED STATE NONMEMBER BANKS

SUBJECT: Statement of Policy on Principles
of Capital Forbearance for Banks with
Concentrations in Agriculture and Oil and Gas

The FDIC recognizes the severe economic problems currently being experienced by the agricultural and oil and gas sectors of the economy. It is further recognized that these problems have resulted in severe financial stress on a number of financial institutions principally engaged in serving these sectors. In light of these circumstances, the FDIC, in cooperation with the other federal bank regulatory agencies, has developed and endorsed a policy of capital forbearance in order to provide greater operational flexibility to well-managed, economically sound banks with concentrations in agriculture or oil and gas. The purpose of this statement is to provide an explanation of the FDIC's program for implementing the policy of capital forbearance.

This statement is issued with the understanding that the Congress is also considering legislation on the subject. Modification of this policy may be necessary to accommodate final Congressional action.

The capital forbearance program will be effective immediately and terminate on January 1, 1993. Forbearance means the FDIC will not take administrative action to enforce normal capital standards (as established in 12 CFR Part 325) against banks whose primary capital ratio declines to no less than four percent between now and December 31, 1987, provided the participating banks meet the following qualifications and conditions.

1. The bank must meet the definition of an agricultural/oil and gas bank. An agricultural/oil and gas bank is one whose agricultural and oil and gas loans in the aggregate are equal to, or greater than, 25 percent of the bank's total loans and leases, net of unearned income. Agricultural loans are defined as loans secured by farmland and loans to finance agricultural production and other loans to farmers from Schedule C on the bank's Call Report of Condition. A list of the kinds of loans qualifying as oil and gas loans for purposes of this statement is attached as Attachment A.

2. The weakened capital position of the bank must be largely the result of external problems in the agricultural and/or oil and gas sectors of the economy and not due to significant mismanagement, excessive operating expenses, excessive dividends or actions taken solely for the purpose of qualifying for capital forbearance.

3. The bank must submit to the FDIC a plan for restoring capital to the required minimums in appropriate incremental amounts by not later than January 1, 1993. This plan should specifically address dividend levels; compensation to directors, executive officers or individuals having a controlling interest; and payments for services or products furnished by affiliated companies.

4. The bank must agree to file an annual progress report with the FDIC regarding its capital plan. Depending on an individual bank's progress, more frequent reports and/or a modified plan may be required. Moreover, any contemplated actions that would represent a material variance from the capital plan must be submitted to the FDIC for review.

Banks seeking to participate in this program must provide written notification, which will include the required evidence of eligibility and plans, to the Regional Office of the FDIC. Participation in the program will be granted unless, within 60 days of receipt of the application, the FDIC notifies the applicant bank that its request has been denied or informs the bank that additional information is needed.

Upon request of the bank and at the discretion of the FDIC, capital forbearance could be extended to banks with primary capital ratios as low as three percent in special circumstances, if bank plans indicate that an increase to four percent will occur within a relatively short period of time (generally 12 months or less), and the bank will otherwise meet the qualifications and conditions. For banks in this situation, a positive written response from the FDIC is required for participation in the program.

Existing administrative actions against banks remain in effect, including those provisions addressing capital. However, banks which believe they meet the program's qualifications for capital forbearance may request a modification of the action from the FDIC. These requests will be considered on a case-by-case basis in light of the policy on capital forbearance.

There may be banks which do not meet the above definition of an agricultural/oil and gas bank, but nevertheless believe they are suffering capital pressures caused by problems in these economic sectors. The FDIC will consider extending their capital forbearance policy to these banks on a case-by-case basis upon written request and explanation submitted to the appropriate Regional Office.

The FDIC reserves the right to terminate participation in the program for banks engaged in unsafe and unsound or other objectionable practices, or if it becomes apparent that the bank is unable to comply with its plan, or a modification thereto, which would accomplish the necessary increase to capital.

In some banks, capital levels as low as three to four percent of assets could cause difficulties in abiding by legal lending limits. The FDIC recognizes this problem but has no regulations addressing lending limits. Such problems, to the extent they occur in state-chartered nonmember banks, will have to be addressed through conventional loan participations or modification of state laws or regulations. In this regard, the Office of the Comptroller of the Currency is developing means to provide relief from the general lending limits for national banks engaged in agricultural or oil and gas lending.

Capital forbearance is one part of a joint statement of policy toward agricultural lenders by the three federal bank regulatory agencies recently submitted to Congress. A copy of this statement is attached. Conditions in the oil and gas sectors of the economy and the banks that serve them are similar. The FDIC believes it appropriate to extend this policy to encompass oil and gas activity as well as agriculture. Among other things, the joint statement addresses changes in the Call Report treatment of restructured loans and an affirmation of the use of Financial Accounting Standards Board Statement Number 15 (FASB 15) on accounting for such loans. FASB 15 is not a new accounting opinion and immediate guidance in this area should be available from accounting professionals.

L. Wm Seidman

L. William Seidman
Chairman

Attachments

Distribution: Insured State Nonmember Banks (Commercial and Mutual)

ATTACHMENT A

DEFINITIONS OF OIL AND GAS LOANS

The types of loans listed below will be considered oil and gas loans for the purposes of qualifying for capital forbearance. These loan categories are taken from the special energy Call Report used by the Office of the Comptroller of the Currency. SIC stands for Standard Industry Codes.

A. Loans to the major intergrated oil companies;

B. Loans to companies primarily engaged in operating oil and gas field properties (SIC 1311) (production);

C. Loans to companies primarily engaged in contract drilling (SIC 1381);

D. Loans to companies primarily engaged in performing exploration services on a contract basis (SIC 1382);

E. Loans to companies primarily engaged in performing oil and gas field services (SIC 1389);

F. Loans to petroleum refiners (SIC 2911);

G. Loans to manufacturers and lessors of oil field machinery and equipment (SIC 3533, 7394);

H. Loans to companies primarily engaged in pipeline transportation of petroleum (SIC 4612, 4613);

I. Loans to companies primarily engaged in natural gas transmission or distribution (SIC 4922, 4923, 4924);

J. Loans to companies primarily engaged in investing in oil and gas royalties or leases (SIC 6792);

K. Loans to others engaged in oil and gas related activities.

ATTACHMENT B

JOINT STATEMENT
OF
THE FEDERAL RESERVE BOARD,
THE FEDERAL DEPOSIT INSURANCE CORPORATION
AND THE OFFICE OF THE COMPTROLLER OF THE CURRENCY
ON
REGULATORY POLICIES TOWARD AGRICULTURAL LENDERS

The Federal bank regulatory agencies are fully aware of the problems in the agricultural sector of our economy and the financial strains these problems have created for borrowers and lenders. In light of these conditions, the banking agencies believe it appropriate to employ supervisory policies that will assist basically sound, well-managed banks to weather this transitional period, consistent with the need to maintain an adequate supervisory framework and the credibility of regulatory and public financial statements. Supervisory and regulatory policies to help achieve these objectives are outlined below.

In addition to the regulatory policies contained in this statement, the banking agencies continue to urge the Congress and state legislatures to take steps to help maintain the provision of banking services in small communities. The Garn-St Germain Act of 1982 prohibits acquisitions across state lines of troubled banks before they have failed and of failed banks with assets under $500 million. The banking agencies believe that these two constraints should be eased by allowing failing bank acquisitions across state lines and by reducing the size criteria so as to maintain the banking services in farm communities. An easing of state restrictions on branching could also help maintain banking services in small towns in cases when a separately organized and capitalized bank might not be viable.

In order to help alleviate strains on farm lenders and provide additional time to resolve problems in the agricultural sector, the banking agencies express their support for and commitment to the following supervisory policies and principles:

- A major function of capital is to absorb unanticipated losses and help an organization weather a period of adversity. Heavy losses may reduce a bank's capital below normal levels or below minimum regulatory guidelines. The banking agencies will allow a bank experiencing difficulties to operate below the minimum capital requirement provided the bank has the capacity to restore capital within five years.

- The banking agencies reaffirm their policies not to discourage banks from forbearing on farm loans through appropriate debt restructurings, recognizing that such restructurings may be in the interests of both the bank and the borrower when there is a reasonable prospect that the borrower will eventually be able to repay the loan.

- Consistent with their general view toward forbearance, the banking agencies will continue not to require an automatic charge-off of loans that have been restructured. Generally accepted accounting principles, as set forth in Financial Accounting Standard No. 15 (Accounting by Debtors and Creditors for Troubled Debt Restructurings), allow financial institutions to maintain the value of a restructured credit provided that the total of anticipated future cash receipts under the new modified terms which are both probable and can be reasonably estimated at least equals the principal value of the loan. Thus generally accepted accounting principles do not necessarily require the immediate charge-off of loans or portions of loans that have been restructured in accordance with that rule.

- The banking agencies see no compelling reason for interpreting or reporting renegotiated debt with nonperforming loans. In line with this view, the agencies propose to modify regulatory reporting and disclosure requirements for restructured debt so that such debt, if it is performing in accordance with the new terms, would be designated as loans "Restructured and In Compliance With Modified Terms."

FDIC
Federal Deposit Insurance Corporation
Washington DC 20429

Division of Bank Supervision

RESTRUCTURED LOANS

BL-15-86
April 11, 1986

TO: CHIEF EXECUTIVE OFFICERS OF INSURED STATE NONMEMBER BANKS

SUBJECT: Accounting for Restructured Loans and Sales of Foreclosed Property

The financial difficulties being experienced by many borrowers, particularly within the agricultural community, have necessitated the restructuring of loans to borrowers who are or will be unable to make their loan payments as scheduled. These restructurings may involve a bank's extending repayment schedules; reducing interest rates, principal amounts, or accrued interest; or granting additional credit (often in the form of a crop loan for the current year). In other cases, borrowers may transfer property (land or equipment) or other assets to the bank in full or partial satisfaction of their debts. Borrowers' difficulties may also result in foreclosures with the bank becoming the owner and subsequent seller of property.

Insured state nonmember banks should account for debt restructurings in accordance with generally accepted accounting principles. The authoritative accounting literature which governs such transactions is Financial Accounting Standards Board Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings" (FASB 15). Depending on the manner in which restructurings take place, it may also be necessary to apply the procedures set forth in Accounting Principles Board Opinion No. 21, "Interest on Receivables and Payables" (APB 21), and Financial Accounting Standards Board Statement No. 66, "Accounting for Sales of Real Estate" (FASB 66). These three accounting standards apply to all troubled debt restructurings and subsequent transactions, not just those involving borrowers in the agricultural sector.

While the Instructions for the Preparation of the Reports of Condition and Income refer banks to FASB 15 for information on the accounting for troubled debt restructurings, the instructions do not contain a detailed description of the relevant provisions of this accounting standard. As a consequence, many banks, particularly smaller ones, may not be fully aware of how FASB 15 may be applied. The enclosed discussion of the accounting procedures for troubled debt restructurings and sales of other real estate owned should provide guidance to those bankers who are working with borrowers in financial difficulty and considering possible methods of restructuring the terms of their borrowers' debts. However, this discussion is only a summary of the generally accepted accounting principles which apply to such transactions. In determining the appropriate accounting treatment for complex restructurings and real estate sales, reference should be made to FASB 15, FASB 66, and APB 21.

For assistance in applying the accounting standards applicable to debt restructurings and sales of foreclosed property, you should consult with your bank's independent accountants or other knowledgeable accounting professionals. Should you have further questions regarding these transactions, please contact your FDIC Regional Office or the Division of Bank Supervision's Planning and Program Development Branch at (202) 898-6903.

Robert V. Shumway
Robert V. Shumway
Director
Division of Bank Supervision

Enclosure

Distribution: Insured State Nonmember Banks (Commercial and Savings)

ACCOUNTING FOR RESTRUCTURED LOANS AND SALES OF FORECLOSED PROPERTY

Troubled Debt Restructurings

Financial Accounting Standards Board Statement No. 15 (FASB 15), establishes the accounting treatment for "troubled debt restructurings." This statement defines a troubled debt restructuring as one in which the bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. It is important to note that certain restructurings do not meet this definition. For example, a loan which is extended or renewed at an interest rate equal to the current rate for new loans with similar risk would not be treated as a troubled debt restructuring even if the new rate is less than the previous rate. Therefore, only those troubled debt restructurings meeting the FASB 15 definition are accounted for in accordance with the statement.

Recorded Amount of the Loan

In applying the provisions of FASB 15 to a specific troubled debt restructuring, the "recorded amount of the loan" on the bank's books forms the basis for determining the appropriate accounting for the effects of the restructuring. In general, the recorded amount of a loan is the principal plus accrued interest less any previous charge-offs on the loan. When a loan is restructured,, the bank may not reverse previous charge-offs in order to increase the recorded amount of the loan. Likewise, the bank may not accrue interest to the date of restructuring if the accrual of interest had previously been discontinued.

Modification of Terms

A troubled debt restructuring may provide a reduction of the interest rate, principal amount, or accrued interest on an existing borrower's loan. In such a situation, referred to as a modification of terms, FASB 15 requires that the recorded amount of the loan on the bank's books be compared to the total future contractual cash payments specified by the modified repayment terms (including both principal and interest but normally excluding contingent payments). A loss on restructuring is recognized (through a charge to the allowance for loan losses) only if the total of such future principal and interest payments is less than the recorded amount of the loan. Otherwise, no loss on restructuring is recognized when the loan is restructured. The only additional accounting requirement is for the bank to determine the new effective interest rate on the restructured loan for income recognition purposes. See Examples 1 and 2.

New Effective Interest Rate

The new effective interest rate on a restructured loan is often equal to the stated interest rate on the loan after it has been restructured. However, the effective rate and the stated rate generally will not be equal if (1) the loan principal is reduced, (2) the new contractual rates are on a graduated basis (e.g., eight percent the first year, ten percent thereafter), (3) accrued and unpaid interest is not added to principal or otherwise included in the contractual interest rate amount, or (4) the repayment terms have other unusual provisions. If an effective interest rate computation is required, it should be based upon the future contractual cash payments specified by the modified terms (regardless of whether they are designated as interest or principal) and should normally exclude all payments which are contingently receivable. The effective interest rate on the restructured loan is the discount rate that equates the present value of the future contractual cash payments with the recorded amount of the loan on the bank's books. Interest income accrued at this effective rate will produce a constant rate of interest on the restructured loan over its remaining life. The effective rate generally will be less than the original stated loan rate and may be as low as zero percent without any FASB 15 requirement that the bank recognize a loss on restructuring when the loan is restructured. See Example 3.

Acceptance of Property

If a bank accepts property (e.g., farmland) in full satisfaction of a loan, the property should be recorded at its fair (appraised) value. When the fair value of the property received is less than the recorded amount of the loan, including recorded accrued interest, the difference must be charged to the allowance for loan losses. Any future writedowns of the property should be treated as a noninterest expense.

Restructuring with Acceptance of Property

A restructuring may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring is a two step process. First, the recorded loan balance is reduced by the fair value of the property received. Second, the total of the future contractual cash payments specified by the modified terms is compared to the remaining recorded amount of the loan and the new rate on the remaining balance is computed as described above under "modification of terms" and "new effective interest rate." See Example 4.

Substitute Borrower

A restructuring may involve the assumption of a troubled loan by an unrelated borrower. Such a transaction would be treated in the same manner as the acceptance of property, i.e., the bank has received a "new" loan (the loan assumed by the unrelated borrower) in full satisfaction of the "old" troubled loan. The assumed loan should be recorded at its fair value. When the interest rate on this "new" loan is below current market interest rates, Accounting Principles Board Opinion No. 21 (APB 21) specifies that the loan must be discounted at a current market rate to determine its fair value. If this value is less than the recorded amount of the "old" loan, the bank must charge the difference to the allowance for loan losses. Interest income on the assumed loan, including the accretion of any discount, will be recognized at a constant rate over the life of the loan. See Example 5.

New Loan

The bank may extend additional credit to a borrower at interest rates below the current market rate. An example would be a new crop loan extended to give a borrower an opportunity to return to profitable operations. Since this is a new loan to the same borrower, no special accounting rules apply and neither discounting nor loss recognition is necessary. However, if the new loan is granted in connection with the restructuring of an existing loan, the new loan will be considered part of the restructuring and included as a component of the recorded amount of the loan on the bank's books for purposes of determining the appropriate accounting for the effects of the restructuring. The procedures outlined above under "modification of terms" and "new effective interest rate" would then be applied to this combined recorded amount.

Credit Analysis

In all troubled debt restructurings, the collectibility of future payments may be questionable. Therefore, regardless of whether the bank recorded a loss on restructuring, a separate evaluation should be performed to determine if any amount should be charged to the allowance for loan losses from a credit quality standpoint. The analysis should include the borrower's ability to meet the new terms of the loan based upon projected cash flows, profitability, and other credit factors. Consideration should also be given to the reasonableness of the modified terms of the loan since loans should not be restructured in an attempt to conceal credit losses or delay their recognition.

Sale of Foreclosed Property

A bank that sells foreclosed property (e.g., farmland) will often finance the purchaser's acquisition of the property by granting the purchaser a loan bearing an interest rate that is less than current market interest rates. In this situation, APB 21 requires that the loan be discounted to bring its yield to a market rate. The effect of the discount will be to either increase the loss or reduce the gain which results from the sales transaction. Interest income, including the accretion of discount, is then recognized at a constant yield over the life of the loan.

A bank may also facilitate the sale of foreclosed property by requiring little or no downpayment from the purchaser. In such circumstances, the required accounting is set forth in Financial Accounting Standards Board Statement No. 66 (FASB 66). This accounting standard prescribes minimum downpayment requirements that, along with other conditions, must be satisfied in order for the seller to recognize the full amount of any profit on the sale when the real estate is sold. Otherwise, profit recognition is deferred. Losses, however, should be recorded immediately. For example, any profit must be deferred on a sale of farmland when the purchaser's downpayment is less than 25 percent of the sales value of the property (i.e., the sales price reduced by the discount on the selling bank's below market rate loan to the purchaser). See Example 6.

EXAMPLES

The following examples assume that the loan or a portion thereof has not been charged off for credit quality reasons prior to the restructuring. If a credit loss is present in the loan when it is restructured, it should be recognized through a charge to the allowance for loan losses before the restructuring computations set forth in the examples.

Example 1 - Interest Rate Reduced

A borrower who owes the bank $125,000 is experiencing financial difficulty. The bank agrees to reduce the interest rate from 12 percent to 4 percent. Principal and interest payments are due in one year.

Future contractual principal payment	$125,000
Plus: Future contractual interest payment (at 4 percent)	5,000
Total cash payments specified by the modified terms	$130,000
Less: Recorded amount of the loan	125,000
Excess of future payments over recorded amount (interest income)	$ 5,000

No loss on restructuring is recognized since the total future contractual payments ($130,000) exceed the recorded amount of the loan ($125,000). Interest income of $5,000 will be recognized at the stated 4 percent rate over the one year term of the loan.

Alternatively, the bank might have agreed to reduce the interest rate to 4 percent with interest payments due annually and to extend the repayment schedule for five years with principal payments of $12,500, $25,000, $37,500, and $50,000 due at the end of years two, three, four, and five, respectively.

Future contractual principal payments	$125,000
Plus: Future contractual interest payments (at 4 percent)	20,000
Total cash payments specified by the modified terms	$145,000
Less: Recorded amount of the loan	125,000
Excess of future payments over recorded amount (interest income)	$20,000

No loss on restructuring is recorded and interest income is recognized each year at the stated 4 percent rate on the principal balance outstanding.

Example 2 - Principal Reduced With Loss Recognition

A borrower who owes the bank $125,000 is experiencing financial difficulty. The bank agrees to reduce the loan to $100,000. The interest rate will be 10 percent, with principal and interest due in one year. In this situation the bank will charge a $15,000 loss on restructuring to its allowance for loan losses, computed as follows:

Future contractual principal payment	$100,000
Plus: Future contractual interest payment ($100,000 at 10 percent)	10,000
Total cash payments specified by the modified terms	$110,000
Less: Recorded amount of the loan	125,000
Excess of recorded amount over future payments (loss)	$(15,000)

The restructured loan will be recorded on the bank's books at $110,000 rather than the contractual amount of $100,000. This is the recorded amount of the loan prior to its restructuring reduced by the loss on restructuring. No interest income is recognized over the life of the restructed loan since all payments will be applied against the recorded amount of the restructured loan.

Alternatively, the bank might have agreed to reduce the loan to $100,000 and lower the interest rate to 4 percent with principal due in three years and interest due annually. This modification of terms would result in a loss on restructuring of $13,000 which would be charged to the allowance account, computed as follows:

Future contractual principal payment	$100,000
Plus: Future contractual interest payments ($100,000 at 4 percent for 3 years)	12,000
Total cash payments specified by the modified terms	$112,000
Less: Recorded amount of the loan	125,000
Excess of recorded amount over future payments (loss)	$(13,000)

In this case, the restructured loan will be recorded on the bank's books at $112,000, not at the contractual amount of $100,000. This is the original recorded amount of the loan reduced by the loss on restructuring. No interest income is recognized over the three year life of the loan since all payments, regardless of whether designated as interest or principal, will be applied against the recorded amount of the restructured loan.

Example 3 - Principal Reduced With No Loss Recognition

A borrower who owes the bank $125,000 is experiencing financial difficulty. The bank agrees to reduce the loan to $100,000. The interest rate will be 10 percent. Interest will be paid annually and the principal will be due in three years.

In this situation there will be no loss on restructuring since the total future principal and interest payments will exceed the recorded amount of the loan prior to its restructuring ($125,000). In addition, the bank will recognize $5,000 of interest income over three years (at a 1.43 percent rate), computed as follows:

Future contractual principal payment	$100,000
Plus: Future contractual interest payments ($100,000 at 10 percent for 3 years)	30,000
Total cash payments specified by the modified terms	$130,000
Less: Recorded amount of the loan	125,000
Excess of future payments over recorded amount (interest income)	$ 5,000

Since no loss on restructuring is recorded on this transaction, the restructured loan remains on the bank's books at its original recorded amount of $125,000, rather than the contractual amount. The new effective annual interest rate is based on the recorded amount of the loan. An interest rate of 1.43 percent will yield a constant rate of return over the life of the loan in relation to the outstanding book balance. The following table shows the loan balances and the interest income (at 1.43 percent) that the bank would recognize over the life of the loan, assuming the loan does not later need to be placed in nonaccrual status.

Year	Loan Balance at Beginning of Year	Interest Income at 1.43%	Scheduled Payment	Principal Reduction	Loan Balance at End of Year
Date of Restructuring					$125,000
1	$125,000	$1,785	$ 10,000	$ 8,215	116,785
2	116,785	1,667	10,000	8,333	108,452
3	108,452	1,548	110,000	108,452	- 0 -

Example 4 - Principal Reduced and Property Accepted

A borrower who owes the bank $125,000 is experiencing financial difficulty. The bank agrees to accept land with a fair value of $15,000 in partial satisfaction of the loan. In addition, the terms of the loan are modified. Under the modified agreement the customer will repay $100,000 of principal in one year and $10,000 will be forgiven. Interest, at the reduced rate of 5 percent, will also be paid at that time. In this situation, the bank should charge a $5,000 loss on restructuring to its allowance for loan losses, computed as follows:

Recorded amount of the loan	$125,000
Less: Fair value of property accepted in partial satisfaction	15,000
Adjusted recorded amount of the loan	$110,000

Future contractual principal payment	$100,000
Plus: Future contractual interest payment ($100,000 at 5 percent)	5,000
Total cash payments specified by the modified terms	$105,000
Less: Adjusted recorded amount of the loan	110,000
Excess of recorded amount over future payments (loss)	$ (5,000)

The restructured loan will be recorded on the bank's books at $105,000 rather than the contractual amount of $100,000. This is the recorded amount of the loan adjusted for the fair value of the property accepted in partial satisfaction and reduced by the loss on restructuring. No interest income is recognized over the life of the restructured loan since all payments will be applied against the recorded amount of the restructured loan.

If the interest rate on the restructured loan were 10 percent rather than 5 percent, the bank would recover its entire adjusted recorded amount and no loss on restructuring would be recorded. No interest income would be recognized over the life of the restructured loan since all payments would be used to satisfy the recorded amount of the loan. If the interest rate were 15 percent, the bank would recover $5,000 more than the adjusted recorded amount of the loan. This excess amount would be recognized as interest income over the life of the loan and it would be computed as follows:

Future contractual principal payment	$100,000
Plus: Future contractual interest payment ($100,000 at 15 percent)	15,000
Total cash payments specified by the modified terms	$115,000
Less: Adjusted recorded amount of the loan	110,000
Excess of future payments over recorded amount (interest income)	$ 5,000

In this case, since no loss on restructuring is recorded, the restructured loan remains on the bank's books at the adjusted recorded amount of $110,000, rather than the $100,000 contractual amount. The new effective annual interest rate is based on the recorded amount of the loan. Interest income will be recognized at a rate of 4.55 percent over the one year life of the restructured loan.

Example 5 - Substitute Borrower

A borrower who owes the bank $125,000 is experiencing financial difficulty. The loan is secured and the bank finds a party unrelated to the borrower who will assume the loan and the ownership of the collateral in return for the bank's agreeing to reduce the interest rate to 4 percent. Principal and interest payments are due in one year. The market interest rate for similar debt is 10 percent.

APB 21 requires that the assumed loan be discounted to its present or fair value. The fair value of this loan, discounted to yield a market rate of 10 percent, is $118,182. The loss on restructuring that the bank must charge against its allowance for loan losses for agreeing to the assumption of its $125,000 loan at a lower than market rate by the unrelated borrower is $6,818, computed as follows:

Original recorded amount of the loan	$125,000
Less: Discounted value of assumed loan (at 10 percent)	118,182
Loss on restructuring	$ 6,818

The loan discount is recognized as income over the life of the loan and is computed as follows:

Face value of assumed loan	$125,000
Less: Discounted value of assumed loan (at 10 percent)	118,182
Loan discount	$ 6,818

Example 6 - Sale of Foreclosed Property Financed by Selling Bank

The bank owns a tract of foreclosed farmland which is carried on its books in the "Other real estate owned" account at $95,000. The land is sold for $110,000 with the bank financing $100,000 of the purchase price. A $10,000 downpayment is received. The contractual interest rate on the bank's loan to the purchaser is 6 percent. Principal is due in five years and interest is to be paid annually. The market interest rate for similar debt is 12 percent.

APB 21 requires that the $100,000 loan be discounted to its present or fair value. The present value of this loan, discounted to yield a market rate of 12 percent, is $78,371. Therefore, the adjusted sales price of the property is $88,371 ($10,000 + $78,371). The loss on the sale of the property is computed as follows:

Recorded amount of land	$ 95,000
Less: Downpayment	10,000
Less: Discounted value of loan (at 12 percent)	78,371
Loss on sale of land	$ 6,629

Since the land was sold at a loss, the entire amount of that loss is booked on the sale date as a noninterest expense. Note, however, that had the sale resulted in a gain, FASB 66 would have required that it be deferred because the downpayment on the farmland was less than 25 percent.

The discount on the loan of $21,629 is the difference between the face value of the loan ($100,000) and the discounted value of the loan ($78,371). This discount is accreted into income over the life of the loan.

The following table shows the loan balances, net of unearned discount, and the interest income (at 12 percent) that the bank would recognize over the life of the loan, assuming the loan does not later need to be placed in nonaccrual status.

Year	Net Loan Balance at Beginning of Year	Interest Income at 12%	Scheduled Payment	Accretion of Unearned Discount	Net Loan Balance at End of Year
Sale Date					$78,371
1	$78,371	$ 9,405	$ 6,000	$3,405	81,776
2	81,776	9,813	6,000	3,813	85,589
3	85,589	10,271	6,000	4,271	89,860
4	89,860	10,783	6,000	4,783	94,643
5	94,643	11,357	106,000	5,357	- 0 -

Since the face value of the loan ($100,000) remains constant over the life of the loan in this example, the remaining balance of the unearned discount each year is the difference between the loan's face value and its net balance.

Additional Example Factors

The above examples illustrate the proper application of generally accepted accounting principles but do not consider such possible features of restructured loans as contingent payments, variable interest rates, or payments due on demand. Moreover, these illustrations, which demonstrate whether a bank has incurred a loss on restructuring, should not be interpreted as precluding the recognition of additional loan charge-offs or provisions for loan losses based upon credit analyses of restructured loans by the bank's management or regulatory agencies.

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U.S. HOUSE OF REPRESENTATIVES
NINETY-NINTH CONGRESS
SUBCOMMITTEE ON GENERAL OVERSIGHT
AND INVESTIGATIONS
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ROOM B-304 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

April 9, 1986

Honorable Robert L. Clarke, Comptroller
Office of the Comptroller of the Currency
490 L'Enfant Plaza East, SW
Washington, DC 20219

Dear Bob:

I want to take this opportunity to again personally thank you for testifying today before our Financial Institutions Subcommittee. Your comments were most insightful and will prove valuable in our consideration of legislation during the coming months.

As I indicated to you at today's hearing, I would appreciate your additional thoughts with regard to H.R. 1559, the Agricultural Bank Capital Assistance Act. I introduced this bill last March in an effort toward providing a means of assistance to farm banks through the extension of the net worth certificate program to certain qualified institutions. I look forward to your response and to learning in detail of your agency's position on this legislation.

Thank you for your cooperation.

With best wishes for you, I am

Sincerely yours,

Carroll Hubbard

CARROLL HUBBARD
Chairman
Subcommittee on General
Oversight and Investigations

CH/gmc/ps

JUN 0 4 1986

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

June 4, 1986

Dear Mr. Chairman:

In your letter of April 9, 1986, you requested our views on H.R. 1559, the proposed "Agricultural Bank Capital Assistance Act," which would provide agricultural banks with a net worth certificate program similar to the one currently used by the thrift industry. Although we share your concern with the plight of the nation's agricultural sector, we do not believe that such a program offers an appropriate solution to the problems facing agricultural banks in that sector.

The net worth certificate program would allow qualified banks to include net worth certificates as capital for regulatory purposes. We are concerned that such net worth certificates could result in a distortion of the financial statements of an agricultural bank. Financial statements would be inconsistent with generally accepted accounting principles and could thereby undermine the integrity of the bank's financial reports. This could result in a loss of public confidence in both the participating bank and the banking system as a whole.

We believe that the thrift industry's experience with the net worth certificate program makes a strong case for resisting similar programs for agricultural banks. Rather than strengthening the thrift industry, net worth certificates have made it more difficult to determine the true financial condition of thrift institutions. As a result, the credibility of financial reporting by thrifts has diminished.

We believe that supervisory policies already implemented by this Office will provide the necessary assistance to agricultural banks in the most effective manner. Attached is a copy of Banking Circular 212, issued March 28, 1986, which addresses agricultural bank problems by providing a plan to assist fundamentally sound, well-managed agricultural and oil and gas banks that are experiencing temporary difficulties. The banking circular outlines a capital forbearance policy, under which well-managed banks whose primary capital falls below historical levels, as a result of problems in the agricultural and energy sectors, will be given up to 7 years to restore capital.

In the banking circular, we also encourage the use of Financial Accounting Standards Statement No. 15, which allows a bank to carry a restructured loan on its books without any loss recognition if it is probable that the borrower can repay the loan and that total future cash payments at least equal the loan amount prior to restructuring. Further, we have relaxed the lending limit rules so that a bank whose capital declines as a result of agricultural or oil and gas losses will be able to better maintain its current dollar general lending limit in order to meet the credit needs of its customers. Finally, we have modified reporting requirements for restructured loans. These measures will provide banks with a greater incentive to promptly recognize loan losses, work with borrowers to restructure loans, and rebuild capital in an orderly manner.

In summary, while we are sympathetic with your efforts to accommodate the needs of farm banks, we believe that the supervisory policies recently implemented by the regulatory agencies will provide agricultural banks with the incentives and the time to meet the needs of the borrowers they serve. Further, these policies preserve the integrity of bank financial statements, which is vital to assuring confidence in the banking system.

We appreciate the opportunity to comment on this bill. If we can be of any assistance in the future, please let us know.

Sincerely,

Robert L. Clarke
Comptroller of the Currency

Attachment

The Honorable Carroll Hubbard
Chairman
Subcommittee on General Oversight
 and Investigations
Committee on Banking, Finance
 and Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

B C. 212

BANKING ISSUANCE

Comptroller of the Currency
Administrator of National Banks

Type: Banking Circular

Subject: Capital Forbearance Policies

To: Chief Executive Officers of all National Banks, Deputy Comptrollers, Department and Division Heads, and Examining Personnel

Subject: Capital Forbearance Policies

Contents:

I. Introduction
II. Bank Relationships with Troubled Borrowers
III. Capital Forbearance Policy
IV. Accounting for Troubled Debt Restructurings
V. Call Report Changes
VI. Lending Limits

I. INTRODUCTION

The last few years have proved to be a particularly difficult period for farm and oil and gas banks and their borrowers. Many farmers and others dependent on the agricultural economy have experienced, and continue to experience, financial difficulties. During this period, an historically large number of farm banks have failed and an even larger number have developed serious problems. Similarly, volatile energy prices have adversely impacted oil and gas borrowers and the banks that lend heavily to them.

In light of these problems, the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation believe it appropriate to employ supervisory policies that will support basically sound, well-managed banks in weathering what is expected to be a difficult but transitional period. In connection with their recent testimony before Congress, the agencies released a Joint Policy Statement on March 11, 1986, outlining these policies. Although the statement refers only to agricultural banks, it has been extended to oil and gas banks by subsequent agreement among the agencies. A copy of the Joint Policy Statement is attached.

This Circular explains how the Office of the Comptroller of the Currency will implement the Joint Policy Statement. Implementation will be accomplished by encouraging banks to work with their troubled agricultural and oil and gas borrowers; by establishing a capital forbearance policy; by encouraging the use of generally accepted accounting principles which may permit loan restructurings without loss recognition; by changes to Call Reports; and by relaxing lending limits.

The Congress is considering legislation covering capital forbearance, Call Reports, and lending limits, among other matters. Modification of this Circular may be required if legislation is enacted.

> Certain provisions contained in this Circular are subject to approval by the Office of Management and Budget, where they are currently under review.

II. BANK RELATIONSHIPS WITH TROUBLED BORROWERS

Problems in the agricultural economy have directly affected the banks that provide financing for the agricultural sector. Severe financial pressures on borrowers dependent on the agricultural economy have resulted in an increase in loan delinquencies. As conditions have worsened, borrowers increasingly fear foreclosure, while bankers are increasingly concerned about supervisory actions that may result from reduction in their banks' capital as a consequence of loan losses.

In response to this situation, the OCC has encouraged bankers to develop work-out strategies with their agricultural borrowers. In a joint statement on April 23, 1985, the Federal bank regulatory agencies reiterated their policy of encouraging banks to enter into work-out plans with agricultural borrowers who are experiencing temporary difficulties in meeting their debt service obligations. The OCC renews that encouragement now.

Although OCC examiners will point out to management the weaknesses that may be present in loans, the OCC does not require foreclosure on collateral or the acceleration of the maturity of loans. The OCC recognizes that downturns in certain sectors of the economy are expected to be transitory. Therefore, lenders may find that the most prudent policy is to restructure the loan terms rather than to take more precipitous action such as foreclosure.

The volatility in energy prices has created a similar situation between oil and gas companies and the banks that lend to them. Accordingly, the OCC also encourages banks to develop appropriate work-out strategies with their oil and gas borrowers.

III. CAPITAL FORBEARANCE POLICY

Despite the difficult problems facing many agricultural and oil and gas banks, the OCC believes that most have sound prospects for the future. Even with the losses suffered by these banks and the likelihood that losses will continue to occur, these banks retain substantial strength. Many of them possess strong capital to asset ratios and capable management that adheres to sound lending policies.

Accordingly, the OCC has adopted, effective immediately, a capital forbearance policy which will benefit basically well-managed banks that have sufficient capital to absorb loan losses and reasonable prospects to replenish capital. Capital forbearance formally acknowledges that capital should be used during periods of unusually heavy loan losses and that capital replenishment takes time. The capital forbearance policy should provide banks greater incentives to recognize promptly losses arising in their loan portfolios, work with borrowers to restructure loans, and rebuild bank capital in an orderly manner. This capital forbearance policy is temporary and will terminate on January 1, 1993.

Under the capital forbearance policy, the OCC will not take administrative action to enforce the minimum capital requirements in 12 CFR Part 3 against a bank whose primary capital ratio declines below 5-1/2 percent to no less than 4 percent before December 31, 1987, provided the bank meets the following qualifications and conditions:

1. The bank must meet the definition of an agricultural/oil and gas bank. An agricultural/oil and gas bank is one whose agricultural and oil and gas loans, in the aggregate, are equal to or greater than 25 percent of the bank's total loans and leases, net of unearned income. Agricultural loans are defined as loans secured by farmland and loans to

finance agricultural production and other loans to farmers from Schedule C on the bank's Call Report. A list of the kinds of loans qualifying as oil and gas loans for purposes of the capital forbearance policy is attached as Exhibit A.

2. The weakened capital position of the bank must be largely the result of problems in the agricultural and/or oil and gas sectors of the economy and not due to excessive bank operating expenses, insider abuse, excessive dividends or actions taken solely for the purpose of qualifying for capital forbearance.

3. The bank must be well-managed. In reaching determinations about the quality of a bank's management, the OCC will take into account existing management's past record of performance in guiding the bank, including its timely recognition of loan losses and other weaknesses. The OCC will also consider the bank's past compliance with any agreements with, commitments to, or orders from the OCC. Further, the OCC will consider the capability of management to develop and implement an acceptable rehabilitative plan.

4. The bank must submit an acceptable plan for restoring capital by January 1, 1993 to the minimums required by 12 CFR Part 3. The plan should describe the means and schedule by which capital will be increased. This plan should also specifically address reduced dividend levels; limitations on the compensation of directors, executive officers or individuals having a controlling interest; limits on asset growth; and payments for services or products furnished by affiliated companies.* The plan should provide for improvement in the bank's primary

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* Banks should also refer to Banking Circular No. 115, "Income Diversion Through Management and Other Fees", dated August 30, 1978, and Supplement No. 1 thereto, dated December 28, 1978.

capital ratio on a continuous or periodic basis from earnings, capital injections, asset shrinkage, or a combination thereof. A plan which projects no significant improvement in capital until near the end of the forbearance period will not normally be acceptable. The OCC may require modifications to a bank's plan in order for the bank to receive, or to continue to receive, capital forbearance.

5. The bank must commit to file annual progress reports regarding compliance with its capital plan. Depending on an individual bank's progress, more frequent reports may be required. Moreover, any contemplated actions that would represent a material variance from the capital plan must be submitted to the OCC for review.

Banks with capital below the minimums established in 12 CFR Part 3 seeking capital forbearance must file a written request no later than December 31, 1987 with the Deputy Comptroller for the District in which the bank is located. The request must include a certification and explanation of its eligibility to participate (covering items 1 through 3 above), its plan, and its commitment to file the required reports. Capital forbearance will be considered granted unless, within 60 days of receipt of the request, the District notifies the bank that its request has been denied or that additional information or time is required. Pursuant to 12 CFR 3.8, during the period covered by this capital forbearance policy, a bank granted capital forbearance and in compliance with an acceptable capital plan will not be considered in violation of the minimum capital ratios required by 12 CFR 3.6.

Upon the written request of an agricultural/oil and gas bank and at the discretion of the OCC, the capital forbearance policy may be extended, in special circumstances, to a bank with a primary capital ratio lower than 4 percent. In addition, the OCC will consider extending its capital forbearance policy to banks which do not meet the above definition of an agricultural/oil and gas bank, but nevertheless are suffering capital declines caused by problems in the agricultural or oil and gas sectors. Capital forbearance may be extended to these banks only on a case-by-case basis upon written request and explanation submitted to the District Deputy Comptroller. In both circumstances, capital forbearance will not be considered granted until the District so notifies the bank.

The OCC reserves the right to terminate capital forbearance for banks engaged in unsafe or unsound or other objectionable practices, or if it becomes apparent to the OCC that the bank is unwilling or unable to comply with an acceptable capital plan. Capital forbearance, once granted, will not be terminated solely on the basis of subsequent changes in a bank's percentage of loans to agricultural and/or oil and gas borrowers.

Some banks are at present subject to capital requirements higher than those specified in 12 CFR 3 by a capital directive, an effective order issued pursuant to 12 USC 1818, or a formal agreement between a bank and the OCC. Banks which have experienced agricultural or oil and gas losses and which are subject to a capital ratio higher than the minimums set forth in 12 CFR 3.6 may request a modification from the OCC. The OCC will reconsider the higher requirement in light of the capital forbearance policy.

In addition, the OCC capital forbearance policy extends to well-managed banks whose primary capital ratios decline, as a result of problems in the agricultural or oil and gas sectors of the economy, from historic levels to levels above the 5-1/2 percent minimum primary capital ratio. These banks do not have to apply for capital forbearance, and the OCC will not require them to take any action solely on the basis of that decline in capital. These banks will be expected to maintain adequate capital for the nature of their operations and, if appropriate, to increase their capital over time back to historic levels. In addition, these banks must recognize that asset growth should be accompanied by appropriate increases in capital.

All banks which are operating with capital levels below those which would be expected under normal economic conditions should be aware that the OCC will be unlikely to approve applications by them to acquire other banks. Similarly, the OCC will be likely to object to changes in control or acquisitions of such banks unless the transaction will result in prompt restoration of capital to appropriate levels.

The implementation of the OCC's capital forbearance policy has no effect on balance sheet or income statement items reported in Call Reports or other financial statements, nor does it allow banks to report, as assets, loans (or portions thereof) considered losses. On the contrary, the policy retains existing financial presentation rules and creates no inconsistencies with generally accepted accounting principles. The OCC believes that maintaining the integrity of financial statements is vital to assuring confidence in the banking system.

IV. ACCOUNTING FOR TROUBLED DEBT RESTRUCTURINGS

The OCC has followed, and will continue to follow, generally accepted accounting principles with respect to loans which have been formally restructured to enable the borrower to service the debt. Statement of Financial Accounting Standards No. 15 (FAS 15), Accounting by Debtors and Creditors for Troubled Debt Restructurings, governs the accounting for such restructurings. This Standard allows a loan to continue to be carried on the bank's books without any loss recognition if the loan is formally restructured in a manner so that it is probable and estimable that the borrower can repay the loan under the new terms, and that the total future cash payments by the borrower (principal and interest combined) at least equals the loan amount on the bank's books.

Accordingly, a bank which reasonably expects a borrower's future cash payments to equal or exceed the loan amount does not need to recognize a loss on the restructuring. In those situations where it is expected that the future cash payments on the restructured loan will be less than the loan amount, the loss recognized is limited to the expected cash flow deficiency.

Attached is a copy of Banking Circular 195, which includes more specific details of the accounting provisions. Bankers are encouraged to familiarize themselves with the accounting treatment described in FAS 15.

V. CALL REPORT CHANGES

Two changes are being made to the Call Reports, expected to be effective with the reports for the quarter ending June 30, 1986. One is needed to monitor the capital forbearance policy and potential changes to legal lending limits for national banks; the other is designed to prevent misconceptions about certain restructured loans.

Schedule RI-B, "Charge-offs and Recoveries and Changes in Allowance and Lease Losses," will be changed for national banks to provide information relative to capital forbearance and legal lending limits. Memorandum items will be added to this schedule to identify a bank's charge-offs and recoveries of Special Category Loans on a cumulative basis since January 1, 1986. Special Category Loans are defined as (a) loans secured by farmland and loans to finance agricultural production and other loans to farmers from Schedule C of the bank's Call Report and (b) the oil and gas loans listed on Exhibit A hereto. Should the definitions change, the OCC will provide national banks with revised definitions prior to the due date for the Call Report first affected by the change.

The second set of changes involves the reporting of renegotiated "troubled" debt. The existing Schedule RC-N ("Past Due, Nonaccrual, and Renegotiated Loans and Lease Financing Receivables"), will be modified by removing the column entitled "Renegotiated troubled debt." Renegotiated loans which are performing in compliance with the modified terms will be reported in the memorandum section of Schedule RC-C under a new heading "Loans Restructured and In Compliance with Modified Terms." Renegotiated loans that become past due or are otherwise placed in nonaccrual status will be reported in Schedule RC-N in the appropriate categories.

In addition, a new memorandum item will be added to Schedule RC-N to require reporting of total renegotiated "troubled" debt included in the categories 30-89 days past due and accruing, 90 days or more past due and accruing, and nonaccrual. This memorandum item will be maintained for supervisory purposes on a confidential basis.

VI. LENDING LIMITS

The recognition by a bank of losses on loans reduces not only its capital, but also reduces the maximum amount the bank can lend by law to any single borrower. Lending limits are an important ingredient in protecting the safety and soundness of banks by requiring diversification of credit risks. Many banks have established internal controls limiting the size of loans to any single borrower to an amount less than the legal lending limit. In those banks that do make loans at the legal lending limit, such loans are generally small in number. However, the declines in capital attributable to the problems in the oil and gas and agricultural sectors of the economy may cause some banks to be unable to serve the normal credit needs of a greater number of their creditworthy customers. In order to reduce the impact of these loan losses on a bank's ability to meet the legitimate credit needs of its financially sound customers, the OCC believes it necessary and appropriate to relax lending limits during the period in which the capital forbearance policy is in effect.

The Federal statute governing national bank lending limits is 12 USC 84. The OCC has issued implementing regulations at 12 CFR Part 32. In general, national banks are subject to a general limitation of 15 percent of total capital (i.e. unimpaired capital and unimpaired surplus), and may lend an additional 10 percent of total capital to the same borrower fully secured by readily marketable collateral. There are also a number of exceptions for specified types of loans. Under the statute, the OCC has the authority to establish limits other than those specified.

Under that authority, the OCC contemplates adopting as soon as possible a temporary amendment to 12 CFR Part 32 to be consistent with the purposes of the capital forbearance policy. It is anticipated at present that the amendment would substitute an increased general lending limit for national banks to offset the decline in capital resulting from losses attributable to problems in the agricultural and oil and gas sectors of the economy. As an offset, the new general lending limit would not increase any bank's lending limit above what it would have been had it not experienced losses attributable to these troubled economic sectors. The OCC also contemplates including in the amendment a maximum general lending limit of 20 percent to preserve the benefits of risk diversification. The change would cover losses occurring after January 1, 1986 and no later than December 31, 1987, but the effect of those losses on lending limits would continue until January 1, 1993.

The change would allow banks, whose capital declines by no more than 25 percent as a result of losses attributable to agricultural and oil and gas loans, a general lending limit of 15 percent of their capital as of December 31, 1985. For example, a bank with a 10 percent capital ratio, whose capital ratio at December 31, 1985 subsequently declines to 8 percent as a result of losses attributable to the agricultural or oil and gas sectors, would have no reduction in its general lending limit. For banks whose capital ratios are even more dramatically reduced, the effect of the new provision would be a general lending limit of as much as 20% of their reduced capital. The new general lending limit rule would expire simultaneously with the capital forbearance policy on January 1, 1993. Comment will be solicited on the temporary amendment.

Exhibit B hereto is a worksheet which would enable national banks to compute their general lending limits under the new rule. The Comptroller will send appropriate material to national banks relating to the formal adoption of the change to 12 CFR Part 32. The new lending limit will not be effective until formal adoption of the rule.

ORIGINATING OFFICE

Questions regarding this Banking Circular may be directed to the Chief National Bank Examiner's Office, (202) 447-1646.

Robert L. Clarke
Comptroller of the Currency

Type: Banking Circular

Subject: Capital Forbearance Policies

EXHIBIT A

DEFINITIONS OF OIL AND GAS LOANS

The types of loans listed below regardless of purpose will be considered oil and gas loans for the purposes of qualifying for capital forbearance. Wherever "company" is referenced, the caption also assumes "individuals". SIC stands for Standard Industry Codes. See following pages for definitions.

A. Loans to the major integrated oil companies;

B. Loans to companies engaged in operating oil and gas field properties (SIC 1311) (production);

C. Loans to companies primarily engaged in contract drilling (SIC 1381);

D. Loans to companies primarily engaged in performing exploration services on a contract basis (SIC 1382);

E. Loans to companies primarily engaged in performing oil and gas field services (SIC 1389);

F. Loans to petroleum refiners (SIC 2911);

G. Loans to manufacturers and lessors of oil field machinery and equipment (SIC 3533, 7394);

H. Loans to companies primarily engaged in pipeline transportation of petroleum (SIC 4612, 4613);

I. Loans to companies primarily engaged in natural gas transmission or distribution (SIC 4922, 4923, 4924);

J. Loans to companies primarily engaged in investing in oil and gas royalties or leases (SIC 6792);

K. Loans to others engaged in oil and gas related activities.

Major Integrated Oil Companies

International Companies

British Petroleum Co.
Chevron Corp.
Exxon Corp.
Gulf Oil Corp.
Mobil Corp.
Royal Dutch/Shell Group
    Royal Dutch Petroleum Co.
    Shell Oil Co.
    Shell Canada Ltd.
    Shell Transport & Trading Co.
Texaco, Inc.

Domestic Companies

Amerada-Hess
Ashland Oil Co.
Atlantic Richfield Co.
Kerr McGee Corp.
Occidental Petroleum Co.
Pennzoil
Phillips Petroleum Co.
Standard Oil Co. of California
Standard Oil Co. (Indiana)
Standard Oil Co. (Ohio)
Sun Company, Inc.
Tenneco Co.
Unocal

SIC CODES

SIC 1311 Crude Petroleum and Natural Gas

Establishments primarily engaged in operating oil and gas field properties. Such activities include exploration for crude petroleum and natural gas; drilling, completing, and equipping wells; operation of separators, emulsion breakers, desilting

EXHIBIT A (Continued)

equipment; and all other activities in the preparation of oil and gas up to the point of shipment from the producing property. Also includes the production of oil through the mining and extraction of oil from oil shale and oil sands.

SIC 1381 Drilling Oil and Gas Wells

Establishments primarily engaged in drilling wells for oil or gas field operations for others on a contract, fee, or similar basis. Includes contractors that specialize in "spudding in," "drilling in," redrilling, and directional drilling.

SIC 1382 Oil and Gas Field Exploration Services

Establishments primarily engaged in performing geophysical, geological, and other exploration services for oil and gas on a contract, fee or similar basis.

SIC 1389 Oil and Gas Field Services

Establishment primarily engaged in performing oil and gas field services, for others on a contract, fee, or similar basis, such as excavating slush pits and cellars; grading, and building of foundations at well locations; well surveying; running, cutting, and pulling casings, tubes, and rods; cementing wells; shooting wells; perforating well casing; acidizing and chemically treating wells; and cleaning out, bailing, and swabbing wells.

SIC 2911 Petroleum Refining

Establishments primarily engaged in producing gasoline, kerosene, distillate fuel oils, residual fuel oils, lubricants and other products from crude petroleum and its fractionation products, through straight distillation of crude oil, redistillation of unfinished petroleum derivatives, cracking or other processes.

EXHIBIT A (Continued)

SIC 3533 Oil Field Machinery and Equipment

Establishments primarily engaged in manufacturing machinery and equipment for use in oil and gas fields.

SIC 7394 Equipment Rental and Leasing Services

- Oil field equipment rental
- Oil well drilling equipment rental: machinery, drilling bits, etc.

SIC 4612 Crude Petroleum Pipe Lines

Establishments primarily engaged in the pipe line transportation of crude petroleum

SIC 4613 Refined Petroleum Pipe Lines

Establishments primarily engaged in the pipe line transportation of refined products of petroleum, such as gasoline and fuel oil.

SIC 4922 Natural Gas Transmission

Establishments engaged in the transmission and/or storage of natural gas for sale.

SIC 4923 Natural Gas Transmission and Distribution

Estalishments engaged in both the transmission and distribution of natural gas for sale.

SIC 4924 Natural Gas Distribution

Establishments engaged in the distribution of natural gas for sale.

EXHIBIT A (Continued)

SIC 6792 Oil Royalty Traders

Establishments primarily engaged in investing in oil and gas royalties or leases, or fractional interest therein.

SIC 1321 Natural Gas Liquids Production

Establishments primarily engaged in producing liquid hydrocarbons from oil and gas field gases.

SIC 1623 Pipe Line Construction

- Distribution lines (oil and gas field construction)
- Pipe laying
- Pipe line construction
- Pipe line wrapping
- Pumping station construction

SIC 1629 Heavy Construction

- Oil refinery construction
- Petroleum refinery construction

SIC 3494 Valves and Pipe Fittings

SIC 3498 Fabricated Pipe and Fabricated Pipe Fittings

SIC 3559 Special Industry Machinery

- Petroleum refinery equipment

SIC 4226 Special Warehousing and Storage

- Oil and gasoline storage caverns (for hire)
- Petroleum and chemical bulk stations and terminals for hire

EXHIBIT A (Continued)

SIC 4925 Mixed, Manufactured or Liquified Petroleum Gas Production and/or Distribution

Establishments engaged in the manufacture and/or distribution of gas for sale, including mixtures of manufactured with natural gas.

SIC 5084 Industrial Machinery and Equipment

- Derricks (Wholesale)
- Drilling bits (Wholesale)
- Oil Refining machinery, equipment, and supplies (Wholesale)
- Oil well machinery, equipment, and supplies (Wholesale)
- Oil well supply houses (Wholesale)

SIC 5171 Petroleum Bulk Stations and Terminals

Establishments primarily engaged in wholesaling petroleum products, including liquified petroleum gas, from bulk liquid storage facilities.

SIC 5172 Petroleum and Petroleum Products Wholesalers

Establishments primarily engaged in wholesaling petroleum and products. Included are packaged and bottled petroleum products distributors, truck jobbers, and others marketing petroleum and products at wholesale.

SIC 6211 Security Brokers, Dealers, and Flotation Companies

- Oil and gas lease brokers
- Dealers in oil royalties

SIC 8911 Engineering, Architectural, and Surveying Services

- Petroleum Engineering

EXHIBIT A (Continued)

Others

Establishments and individuals engaged primarily in oil and gas related activities. Examples of such loans would be mortgages and personal loans to individuals whose sole source of repayment is from the profits of an oil or gas company or employment by an oil or gas company.

EXHIBIT A (Continued)

EXHIBIT B

GENERAL LENDING LIMITATION CALCULATIONS
(For use until January 1, 1993)

Calculation date __________________

1. Total Capital on December 31, 1985..............$__________

2. 15% of the amount on Line 1.....................$__________

3. Total Capital on Calculation date...............$__________

4. 15% of the amount of Line 3.....................$__________

IF THE AMOUNT ON LINE 4 EQUALS OR EXCEEDS THE AMOUNT ON LINE 2, STOP HERE. THE BANK'S CURRENT GENERAL LENDING LIMITATION IS THE AMOUNT ON LINE 4.

5. Sum of Special Category Loan Charge-offs since December 31, 1985 (but only through December 31, 1987)............................$__________

6. Sum of all recoveries since December 31, 1985 on all loans included in Line 5...............$__________

7. Amount on Line 5 minus amount on Line 6.........$__________

8. Amount on Line 3 plus amount on Line 7..........$__________

9. 15% of the amount of Line 8.....................$__________

10. 20% of the amount on Line 3.....................$__________

11. Lesser of the amounts on Line 9 and Line 10.....$__________

12. Lesser of the amounts on Line 2 and Line 11.....$__________

THE BANK'S CURRENT GENERAL LENDING LIMITATION IS THE AMOUNT ON LINE 12.

Joint Statement of the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency on Regulatory Policies Toward Agricultural Lenders

The Federal bank regulatory agencies are fully aware of the problems in the agricultural sector of our economy and the financial strains these problems have created for borrowers and lenders. In light of these conditions, the banking agencies believe it appropriate to employ supervisory policies that will assist basically sound, well-managed banks to weather this transitional period, consistent with the need to maintain an adequate supervisory framework and the credibility of regulatory and public financial statements. Supervisory and regulatory policies to help achieve these objectives are outlined below.

In addition to the regulatory policies contained in this statement, the banking agencies continue to urge the Congress and state legislatures to take steps to help maintain the provision of banking services in small communities. The Garn St Germain Act of 1982 prohibits acquisitions across state lines of troubled banks before they have failed and of failed banks with assets under $500 million. The banking agencies believe that these two constraints should be eased by allowing failing bank acquisitions across state lines and by reducing the size criteria so as to maintain the banking services in farm

communities. An easing of state restrictions on branching could also help maintain banking services in small towns in cases when a separately organized and capitalized bank might not be viable.

In order to help alleviate strains on farm lenders and provide additional time to resolve problems in the agricultural sector, the banking agencies express their support for and commitment to the following supervisory policies and principles:

- A major function of capital is to absorb unanticipated losses and help an organization weather a period of adversity. Heavy losses may reduce a bank's capital below normal levels or below minimum regulatory guidelines. The banking agencies will allow a bank experiencing difficulties to operate below the minimum capital requirement provided the bank has the capacity to restore capital within five years.

- The banking agencies reaffirm their policies not to discourage banks from forbearing on farm loans through appropriate debt restructurings, recognizing that such restructurings may be in the interests of both the bank and the borrower when there is a reasonable prospect that the borrower will eventually be able to repay the loan.

- Consistent with their general view toward forbearance, the banking agencies will continue not to require an automatic charge-off of loans that have been restructured. Generally accepted accounting principles, as set forth in Financial Accounting Standard No. 15 (Accounting by Debtors and Creditors for Troubled Debt Restructurings), allow financial institutions to maintain the value of a restructured credit provided that the total of anticipated future cash receipts under the new modified terms which are both probable and can be reasonably estimated at least equals the principal value of the loan. Thus generally accepted accounting principles do not necessarily require the immediate charge-off of loans or portions of loans that have been restructured in accordance with that rule.

- The banking agencies see no compelling reason for interpreting or reporting renegotiated debt with nonperforming loans. In line with this view, the agencies propose to modify regulatory reporting and disclosure requirements for restructured debt so that such debt, if it is performing in accordance with the new terms, would be designated as loans "Restructured and In Compliance With Modified Terms."

BC - 195

BANKING ISSUANCE

Comptroller of the Currency
Administrator of National Banks

Type:	Banking Circular	Subject:	Accounting for Restructured Loans and Sales of Foreclosed Property

To: Chief Executive Officers of All National Banks, Deputy Comptrollers, District Administrators, Directors and All Examining Personnel

PURPOSE

This issuance provides a summary of the accounting principles applicable to "troubled" debt restructurings and the sale of other real estate owned property (OREO).

BACKGROUND

The financial difficulties being experienced by many borrowers, particularly within the agricultural community, have necessitated the restructuring of loans to borrowers who are unable to meet current or near term contractual loan agreements. These restructurings may involve extending payment schedules; reducing interest rates, principal amounts or accrued interest; granting of additional credit (often in the form of a crop loan for the current year); or transferring property (land or equipment) to the bank in full or partial satisfaction of the debt. These difficulties may also result in foreclosures with the bank becoming the owner and subsequent seller of property.

Regulatory policy requires that debt restructurings be accounted for in accordance with generally accepted accounting principles. The authoritative accounting literature which governs these transactions is Statement of Financial Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings" ("FAS 15"); Accounting Principles Board Opinion No. 21, "Interest on Receivables and Payables" ("APB 21"), and; Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate" ("FAS 66").

ACCOUNTING

Troubled Debt Restructurings

FAS 15 establishes the accounting treatment for "troubled debt restructurings." The Statement defines a troubled debt restructuring as one in which the bank, for economic or legal

Date: May 1, 1985

reasons *related* to the *borrower's financial difficulties*, grants a concession to the borrower that it would not otherwise consider. It is important to note that all restructurings *do not* meet this definition. For example, a loan which is extended or renewed at a interest rate equal to the current rate for new loans with similar risk would not be classified as a troubled debt restructuring even if the new rate is less than the previous rate. Therefore, only troubled debt restructurings meeting this definition are accounted for in accordance with the Standard.

Modification of Terms

If the new terms of the troubled debt restructuring provide for a reduction of either interest *or* principal (referred to as a modification of terms), FAS 15 requires that the recorded amount of the loan on the bank's *books* (principal plus accrued interest) be compared to the total future contractual cash payments (including *both* principal and interest) expected to be collected. A loss is recognized *only* if the total of such future combined payments is less than the recorded amount of the loan. Otherwise, no loss is recognized and the only additional accounting requirement is to determine the new effective interest rate for income recognition purposes.
See Examples 1 and 2.

New Effective Interest Rate

Often, the new effective interest rate is equal to the stated loan rate included in the restructured loan document. However, adjustments may be required if (1) the loan principal is reduced, (2) the new contractual rates are on a graduated basis (e.g. 8% first year, 10% second year, etc.), (3) due and unpaid interest is not added to principal or otherwise included in the contractual interest rate amount, or (4) the repayment terms have other unusual provisions. If an effective interest rate computation is required, it should be based upon future contractual payment terms excluding all payments which are contingently payable. This rate is calculated so as to yield a constant rate of interest over the remaining life of the loan. It is expected the rate will generally be less than the original loan rate and may be as low as zero without any requirement to recognize a loss. See Example 3.

Acceptance of Property

If the bank accepts property (i.e. farm land) in full satisfaction of the loan, the property should be written down and recorded at its fair (appraised) value. The difference between the recorded amount of the loan, including recorded accrued interest, and the fair value of the property received should be charged to the allowance for loan losses. Any future writedowns of the property should be charged against operations.

Restructuring with Acceptance of Property

A restructuring may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring involves a two step process. First, the recorded loan balance is reduced by the fair market value of the property received. Second, the modified payment amount is compared to the remaining recorded loan amount as explained under "modification of terms" above. See Example 4.

New Loan

The bank may extend additional credit to a borrower at interest rates below the current market rate. An example would be a new crop loan extended to give a borrower an opportunity to return to profitable operations. Since this is a new loan to the same borrower, no special accounting rules apply. Accordingly, discounting or loss recognition is not necessary. However, if the new loan is granted in connection with the restructuring of an existing loan, it will be considered part of the restructuring and accounted for as previously described.

Credit Analysis

In all troubled debt restructurings the collectibility of future payments may be questionable. Therefore, a credit analysis should be performed to determine if any additional amounts should be charged to the allowance for loan losses. The analysis should include the borrower's ability to meet the new terms of the loan based upon projected cash flows, profitability and other credit factors.

Type: Banking Circular

Subject: Accounting for Restructured Loans and Sales of Foreclosed Property

Sale of Foreclosed Property

The sale of foreclosed property (i.e. farm land, etc.) will often be financed by a loan made at less than current market interest rates. In this situation, APB 21 requires that the loan be discounted to bring its yield to a market rate. The effect of the discount will then be to either increase the loss or reduce the gain which results from the sales transaction. Interest income is then recognized at a constant yield over the life of the loan.

Banks may also facilitate the sale of foreclosed property by requiring little or no downpayment. In these circumstances the required accounting is set forth in FAS 66 (also see Interpretative Ruling 7.3025). In general, any profit must be deferred on sales of farm land with downpayments of less than 25% of the discounted (if required) sales price. Losses, however, should be recorded immediately. See Example 5.

This Circular is only a summary of the accounting principles which apply to troubled debt restructurings and the sales of foreclosed property. In determining the appropriate accounting for a complex transaction, reference should be made to FAS 15, FAS 66 and APB 21.

ORIGINATING OFFICE:

Questions regarding this Banking Circular may be directed to the Chief National Bank Examiner's Office, Bank Accounting Division (202) 447-0471.

H. Joe Selby
Senior Deputy Comptroller
for Bank Supervision

Example Assumptions:

The following examples assume that the loan or a portion thereof was not charged off prior to the restructuring. If a charge-off was required, it should be recognized before the restructuring computation set forth in these examples.

Example 1 - Interest Rate Reduced

A borrower who owes the bank $125,000 is experiencing financial difficulty. The bank agrees to reduce the interest rate from 15% to 4%. Principal and interest payments are due in one year.

Contractual principal payment	$125,000
Plus: Contractual interest payment	5,000
Total cash payments expected	130,000
Less: Loan amount	125,000
Difference	$ 5,000

No loss is recognized since total contractual payments ($130,000) exceed recorded loan amount ($125,000). Interest income of $5,000 will be recognized at the stated 4% rate.

Example 2 - Principal Reduced With Loss Recognition

A borrower who owes the bank $125,000 is experiencing financial difficulty. The bank agrees to reduce the loan to $100,000. The interest rate will be 12.5%, with principal and interest due in one year. In this situation the bank will record a $12,500 loss, computed as follows:

Original recorded amount of loan	$ 125,000
Less: Contractual principal payment	(100,000)
Less: Contractual interest payment ($100,000 at 12.5%)	(12,500)
Loss (cash deficiency)	$ 12,500

The loan will be recorded on the bank's books at $112,500 rather than the contractual amount of $100,000. This is the original recorded amount of the loan reduced by the loss. No interest income is recognized since all payments will be applied against the recorded amount of the loan.

Example 3 - Principal Reduced With No Loss Recognition

A borrower who owes the bank $125,000 is experiencing financial difficulty. The bank agrees to reduce the loan to $100,000. The interest rate will be 12.5%. Interest will be paid annually and the principal will be due in three years.

In this situation there will be no loss (assuming the loan or portion thereof was not charged off prior to the restructuring) since the total future principal and interest payments will exceed the original book value of $125,000. In addition, the bank will recognize $12,500 (at a 3.57% rate) of interest income over three years, computed as follows:

Contractual principal payment	$100,000
Plus: Contractual interest payments ($100,000 at 12.5% for 3 years)	37,500
Less: Original recorded amount of loan	(125,000)
Interest income	$ 12,500

Since no loss is recorded on this transaction, the loan remains on the bank's books at its original balance of $125,000, rather than the contractual amount. The new effective interest rate is based on the recorded amount of the loan. An interest rate of 3.57% will yield a constant rate of return over the life of the loan in relation to the outstanding book balance. Accordingly, approximately $4,500 of interest income will be recognized in the first year.

Example 4 - Principal Reduced and Property Accepted

A borrower who owes the bank $125,000 is experiencing financial difficulty. The bank agrees to accept land with a fair market value of $15,000 in partial satisfaction of the loan. In addition, the loan is modified. Under the modified agreement the customer will repay $100,000 of principal in one year and $10,000 will be forgiven. Interest, at the reduced rate of 5%, will also be paid at that time. In this situation the bank should record a $5,000 loss, computed as follows:

Original recorded value of loan	$125,000
Less: Fair market value of property accepted in partial satisfaction	(15,000)
Adjusted loan amount	110,000
Less: Future principal	(100,000)
Less: Future interest ($100,000 x 5%)	(5,000)
Loss	$ 5,000

If the interest rate was 10%, the bank would recover its entire investment and no loss would be recorded (assuming the loan or a portion thereof was not charged off prior to the restructuring). No interest income would be recognized since all payments would be used to satisfy the recorded amount of the loan. If the interest rate was 15%, the bank would recover $5,000 more than the recorded value of the loan. This amount would be recognized as interest income over the life of the loan. The computation would be as follows:

Future principal payment	$100,000
Plus: Future interest payment ($100,000 at 15%)	15,000
Less: Adjusted loan amount	(110,000)
Interest income to be recorded over the life of the loan	$ 5,000

Example 5 - OREO Sale Financed

The bank owns a tract of foreclosed farm land which is recorded on its books as Other Real Estate Owned in the amount of $85,000. The land is sold for $110,000 with the bank financing $100,000 of the purchase price. A $10,000 downpayment is received. The contractual interest rate on the loan is 6%. Principal is due in five years, and interest is paid annually. The market interest rate for similar debt is 14%.

APB 21 requires that the loan be discounted to its present or fair market value. The present value of this loan, discounted to yield a market rate of 14%, is $72,535. Therefore, the adjusted sales price of the property is $82,535 ($10,000 + $72,535). The loss on the sale of the property is computed as follows:

Recorded amount of land	$ 85,000
Less: Downpayment	(10,000)
Less: Discounted value of loan	(72,535)
Loss on sale of land	$ 2,456

The loan discount is recognized as income over the life of the loan. It is computed as follows:

Face value of loan	$100,000
Less: Discounted value of loan	72,535
Loan discount	$ 27,465

Since the land was sold at a loss, the entire amount of that loss is booked. Note, however, that had the sale resulted in a gain, FAS 66 would have required that it be deferred because the downpayment was less than 25%.

Additional Example Factors

The above examples illustrate the proper application of generally accepted accounting principles. These illustrations should not be interpreted as preventing additional loan charge-offs or provisions to the allowance for loan and lease losses based upon credit analyses performed by the bank's management or regulatory agencies.

Chairman St Germain. Mr. Cooper.

Mr. Cooper. Thank you, Mr. Chairman. I would like to ask each of you gentlemen what the consequences would be should the provisions of Garn-St Germain that are due to expire on April 15, should those provisions expire for a period of a few weeks?

Would the consequences be dire? Would they be manageable?

Mr. Martin. I think that there are ongoing situations that might be brought to resolution during that multiweek period that would have to be suspended. And I don't think that's in the public interest.

Mr. Cooper. Would you gentlemen concur with that?

Mr. Seidman. I concur with that.

Mr. Cooper. Would you say, therefore, that it's of utmost importance that we extend the provisions by April 15?

Mr. Martin. Yes, sir.

Mr. Cooper. Mr. Seidman, could you quantify for me the energy bank problem? Would it be possible to give an idea of how much of the FDIC fund is at risk or exposed that is due to the energy bank problem right now?

Mr. Seidman. I don't believe it is possible to quantify it in that way; that is, what the likely losses are. All we can say is that there are a number of energy banks with over 5 percent of their loans in energy and that the energy situation is not improving.

At this point, I don't think we can quantify it beyond that.

Mr. Cooper. Is it the most significant threat today to the fund?

Mr. Seidman. I would have great difficulty in really being able to give you an answer on that.

Mr. Cooper. Perhaps you could be more forthcoming about how the OMB has hampered your activities, as Mr. McKinney was talking about earlier. Do you feel that OMB's interference with your jurisdiction has cut the quality of your examining staff?

Mr. Seidman. OMB has not asserted any authority—they have asserted authority over us, but they have not exercised any authority over us because there is a real question whether they have such authority. They have requested such authority from this Congress at three other times and have never received it. So they now have asserted authority under a statute that has been on the books for 36 years.

So at this point, they have not affected our operations. They have indicated to us that we should cut our personnel by substantial numbers. We would therefore have to cut supervision and that certainly would affect the quality of what we do.

Mr. Cooper. So you feel that OMB's assertion of jurisdiction would hurt your performance.

Mr. Seidman. I believe it would.

Mr. Cooper. Did you discuss this with OMB before you became head of the FDIC?

Mr. Seidman. I did not. I certainly didn't know when I accepted the position that that question would be raised.

Mr. Cooper. What steps are you taking now to try to combat that within the administration?

Mr. Seidman. We have presented our views to OMB and we will be trying to resolve it with them.

Mr. Cooper. Have you met with any signs of encouragement?

Mr. **Seidman**. None to date.

Mr. **Cooper**. Not even with the folks from Texas or other energy States?

Mr. **Seidman**. Oh, I have had a lot of encouragement from the Congress. I thought you meant from OMB.

Mr. **Cooper**. Is there any big increase in activity regarding brokered deposits among the energy banks, volatile liabilities, in that regard?

Mr. **Seidman**. We have not seen a big increase in brokered deposits and, as a matter of fact, they have lessened considerably in terms of percentage of assets from prior years.

Mr. **Cooper**. Thank you, Mr. Chairman. I have no more questions.

Chairman **St Germain**. Mr. Bereuter.

Mr. **Bereuter**. Thank you, Mr. Chairman.

Gentlemen, thank you very much for your testimony. I did hear all of it. I wasn't able to stay for all the earlier questions, but I understand that you responded to a number from the gentleman from Kentucky, Mr. Hubbard, that I would have raised. I'm disappointed in your answers, but had expected such answers.

I am very pleased about the regulatory changes that have been made. I am sorry that they are so long in coming, frankly. And I wonder sometimes if we didn't offer legislation, if we would have had those regulatory changes.

Now I want to urge all of you to make sure your people in the field really understand and are willing to use them. There has been some slowness in communication, in my judgment.

I also have to say that the statistics that are generally presented I think mask the problem that is found in the western Grain Belt. In Iowa, Nebraska, Kansas, and South Dakota, those problems are much more severe in all areas, in the agricultural banks, than they are if you would give us the numbers for the Nation as a whole.

And using your own statistics presented here today, in terms of what proportion of the commercial banks in a State are agricultural banks by the 25 percent definition, the three top States are South Dakota, 88 percent, Nebraska, 83 percent, Iowa, 81 percent.

So we have a whole system of banks that are in substantial trouble because basically all of our banks are agricultural banks.

And I really wonder if the regulatory changes that have been made now do much more than mask the problem for a period of time. With such huge grain surpluses in the world today, I really think it's unrealistic to be optimistic that those banks can come back up to that capital level in 4 or 5 years.

If you have any reactions to those points, I would be pleased to hear them. And I don't want to shunt aside your answers, but I would ask one specific question to Governor Martin.

I know that you have been very much involved in the past in putting together the packaging and marketing through the secondary mortgage market technique. It has been suggested that we ought to create such a secondary market instrument for long-term agricultural loans to increase the capital and to change the risk factor.

Do you have any reaction to that, Governor Martin?

Mr. **Martin**. I certainly think it is appropriate to investigate the feasiblity of some kind of a secondary-market operation in longer term farm real estate loans and equipment loans.

We live in a time in which collateralization is going on very widely. I see no reason not to investigate it. There is a necessary ingredient in such a process and that is the insuring or guaranteeing of timely payment of principal and interest on the obligations issued against the pool of, in this case, long-term agricultural loans.

That is a function that should be investigated and analyzed in such a study.

Mr. **Bereuter**. We have in the past used Federal action for the creation of certain instruments of similar nature. Do you have any reaction to legislation proposed to help create such a secondary market?

Mr. **Martin**. Well, Congressman, I recall that the Federal Farm Credit System has very, very substantial capital resources. And it might be that there would be some way to tap that capital to provide the insuring or guaranteeing functions for a secondary market and the collateralization of agricultural loans.

Mr. **Bereuter**. Now in the Grain Belt, we badly need to diversify our economy since we have about the highest proportion of people directly involved in agriculture in those States. So many of our agricultural banks are the only bank in the community.

And so when we need capital to diversify, it is not really available. And in many cases, it has to come from a local institution or the risk won't be taken.

What can you gentlemen say to me about the possibility of providing some specialized treatment for banks, agricultural banks, in the Grain Belt that I think are, by your own statistics, much more threatened than elsewhere in the country, California having a special problem as well?

What additional steps of relief can you as regulators bring to the Grain Belt agricultural banks where the whole banking system is basically jeopardized?

Mr. **Seidman**. First, I would like to say that the basic problem is the farm economy. And the banks are involved with that economy, but in no way that we know of can the banks solve the problem, where the problem has to be solved by dealing with the farm problem itself.

So what we have to do with the banks is to try to keep them in a position where they can service that community over this period of depression, and that is what in the initial proposals we made attempts to do.

What I am hopeful about is that there are some good signs that the farm economy can improve because of the changed conditions, and that includes the falling dollar, falling interest rates, and the lower-fuel costs.

Now I agree, we haven't seen that improvement in that economy yet, but I think there are some things out there that could give us encouragement.

Mr. **Bereuter**. I am still hoping for some specialized consideration for the Farm Belt.

Mr. CLARKE. Congressman, I would like to pick up on what you said in your discussion of collateralization and secondary markets for loans. You pointed up one of the reasons that something needs to be done to expand the opportunities for banks to participate in some other activities, particularly in the securities area. One of the big problems, as we have discussed in some detail this morning, is a lack of diversification opportunity. If smaller banks located in areas such as the Farm Belt where the banks tend to be dependent upon one part of the economy had an opportunity to participate in greater diversification, and I don't mean bad loan participations but good quality loan participations and other kinds of asset investments, I really believe that going forward, those banks would be in a much sounder position. While a lot of people have suggested that those kinds of expanded opportunities would benefit primarily the large banks, I happen to believe that they would also benefit the smaller banks.

Chairman ST GERMAIN. On page 1 of Mr. Martin's statement, we read that bank net earnings are up 17 percent, capital has been increasing for 5 straight years.

Then on page 22 of Mr. Clarke's statement, we read that bank earnings on assets have been declining.

As we know, we have a proliferation of off-balance sheet items—letters of credit, loan swaps, interest rate caps, options, futures, forward, and it goes on and on, and they all relate to bank capital.

Mr. Clarke, on page 11 of your statement, you cite some favorable capital growth numbers for the 24 largest U.S. banks.

Loes this data include off-balance sheet items? My information is that that data does not include off-balance sheet items.

Now am I correct in that?

Mr. CLARKE. I think that's correct. I can tell you right fast.

Chairman ST GERMAIN. If you would.

Mr. CLARKE. That is correct.

Chairman ST GERMAIN. That it does not include off-balance sheet items?

Mr. CLARKE. It does not include off-balance sheet items.

Chairman ST GERMAIN. Do you know what the capital ratios would look like if the off-balance sheet items were included?

Mr. CLARKE. Those data may have been generated in connection with our risk based capital proposal.

Chairman ST GERMAIN. Would you be kind enough to provide that to the subcommittee?

Mr. CLARKE. I would be happy to do so.

Chairman ST GERMAIN. And then, would you also provide the committee with a 5-year tabulation of the capital positions of the 24 largest banks, including the off-balance sheet items?

Mr. CLARKE. I would be happy to.

Chairman ST GERMAIN. Thank you.

Mr. Wortley.

Mr. WORTLEY. Thanks, Mr. Chairman.

I am sorry I have missed a good portion of your testimony and I hope I am not repeating any questions.

But I would like to ask all three of you, how do you feel in an assisted merger or a rescue effort if the organization did not merge with it, but created a separate corporation for the takeover? Do you have any concerns about that?

I will start with Mr. Martin.

Mr. **Martin**. Well, a separate corporation would have the advantage that examiners could isolate the remedial activities and the results overtime. The negative side of that might be that consolidating the statements and the activities with a stronger institution would communicate better the improvement that had taken place in an institution.

But I think——

Mr. **Wortley**. Does the Fed have a position on that specifically at this point?

Mr. **Martin**. I must say that we have not discussed that particular matter—I am only speaking for myself here.

Mr. **Wortley**. How about Mr. Seidman?

Mr. **Seidman**. We would certainly not like to see acquisitions restricted in that way because it would limit our market. There would be times when that might not be the most efficient and economic way to take over an institution. And so——

Mr. **Wortley**. Now you are saying that you would prefer to see it as a merger and not as a separate corporation.

Am I correct?

Mr. **Seidman**. I would prefer to have both options open and the situation be handled in the most effective manner.

Mr. **Wortley**. You are amenable to either option. Am I correct?

Mr. **Seidman**. I would like to have both options.

Mr. **Wortley**. OK.

Mr. **Martin**. We would like to have both.

Mr. **Wortley**. And you would, too, Mr. Martin. Thank you.

Mr. Clarke.

Mr. **Clarke**. I would concur.

Mr. **Wortley**. So all of you are in agreement. You would accept either one.

Now how do each of you feel about a commercial institution, a nonbank, participating? Are you willing to accept that, starting with Mr. Martin.

Mr. **Martin**. I would be very, very reluctant to see a steel manufacturer buying a problem bank.

Mr. **Wortley**. Wouldn't it be perhaps more competitive if the commercial entity could get in?

Mr. **Martin**. Not more competitive than a commercial bank from out of State buying it.

My experience in diversified corporations, and I have been in a couple, has been that the acquiring, non-bank management never understands what a bank is and how to run it.

Mr. **Wortley**. You don't think Sears is doing a very good job?

Mr. **Martin**. I wasn't thinking of Sears at all.

Mr. **Wortley**. I am just being the devil's advocate with you.

Mr. Seidman.

Mr. **Seidman**. Well, obviously, this is part of a far broader question, and that is where is the banking system going in the long run and are we going to do away with the wall between commerce and banking.

So any answer to this question would have to go to the fundamentals of where the banking system ought to be going.

I think what is clear now is that the nonbank bank exception is complicating the system without getting toward an agreed result. And what we need to do is decide if, in fact, we are going to eliminate that wall, then we ought to make it available to all banks and all institutions on the same basis. And I think that's really where your question leads—are we ready to do that?

Mr. Wortley. Well, if you are just going to use existing banks in the marketplace to take over a troubled institution, isn't it going to cost the FDIC more money than it would if there was a more competitive situation existing?

Mr. Seidman. It could in that particular instance. But the more difficult question for the FDIC is, in the long run, which will make the sounder banking system because in the long run, our costs will be related to the soundness of the system overall.

Mr. Wortley. Are the nonbank banks affecting the viability of sales right now?

Mr. Seidman. I am not sure I know what you mean by that. Do you mean if they could——

Mr. Wortley. Well, the fact that you have got nonbank banks out there being created.

Mr. Seidman. Yes.

Mr. Wortley. Why does somebody want to take a troubled institution? Isn't it changing the value in the marketplace?

Mr. Seidman. Yes, they may be satisfying some purchasers who would be purchasers if that option weren't open to them, yes.

Mr. Wortley. Thank you. Mr. Clarke?

Mr. Clarke. Which of those questions would you like me to address?

Mr. Wortley. Let's go to the former.

Mr. Clarke. The first one involves a broader philosophical discussion, as Chairman Seidman said. The proposal that has been made, as I indicated to Congressman Bartlett, is really not an effort to launch into wide open interstate banking, but rather an effort to solve a problem in what we think is a very orderly and logical way. In my view, it would be better if we could go ahead and get that done along the lines that we have outlined in our testimony this morning and not raise the broader philosophical question and generate all of the opposition and discussion that is sure to come out of that. I'd prefer to come back another day and discuss the broader issue with you in some considerable detail.

Mr. Wortley. Would you care to comment on my second question?

Mr. Clarke. If you will remind me what it was, I will be happy to.

Mr. Wortley. What effect the nonbank bank situation is having on the value of troubled institutions.

Mr. Clarke. Of course, the prospect of a nonbank bank charter is not having much effect at all right now because we are, as you know, enjoined from approving any nonbank bank charters. The only nonbank banks that are coming into existence today are State banks that are converting and dropping off the commercial lending or demand deposit function.

It seems to me that there is a much greater attractiveness to a potential acquirer in a failing bank that can provide all banking services that are presently possible than there is in a bank that is having to operate in a crippled manner without all of its powers.

Mr. **Wortley**. Don't the nonbank banks provide a viable option?

Mr. **Clarke**. They provide an option. But I would suggest to you that it's a very limited and ineffective option when you have the alternative of acquiring in another market either a holding company system or an individual bank with the full scope of powers.

Mr. **Wortley**. Well, my time has expired and I thank you very much, gentlemen.

Thank you, Mr. Chairman.

Chairman **St Germain**. Mr. Barnard.

Mr. **Barnard**. Thank you, Mr. Chairman.

I would like to ask three questions, and I hope I can get them squeezed in in my 5-minute time. One of them is a quick question.

Mr. Comptroller, you are operating under a prohibition now by the courts, I believe, as far as chartering any new nonbank banks.

Do you plan to fight that action or do you plan to just leave it lay as it is for the time being?

Mr. **Clarke**. At some point, Congressman, we will have to fight it. It's a question of who moves first. The most recent stay in that action expired on March 31, and we are at present attempting to determine what is the best litigation strategy to follow, whether we should take the initiative or whether we should sit back and wait for the other side to take the initiative.

Mr. **Barnard**. Thank you, sir.

Mr. **Clarke**. It's really just in limbo right now.

Mr. **Barnard**. In the Comptroller's testimony, on page 22, he brings up a subject which I think is very interesting. He goes from the farm problem, the energy problem, the international lending problem, the commercial real estate problem, and focuses in on another problem.

He says, "A major problem commercial banks face, aside from the deterioration in the quality of their borrowers, is a reduction in their lending opportunities."

And, of course, he goes in then to talk about the fact that there has been some deterioration of the market because of commercial paper and the fact that the market, so-called commerce, is getting into the commercial lending area.

Mr. Martin, would you and Dr. Seidman agree or disagree as to the Comptroller's observations there?

Mr. **Martin**. I think that the use of commercial paper by the better credits—the resort to the Euro-market by the better credits, their ability to collateralize and internationalize their operations—means that the ability of the U.S. commercial banking system to generate adequate earnings and adequate capital over time has been severely constrained.

I would certainly agree with the Comptroller's analysis of that.

Mr. **Seidman**. I agree.

Mr. **Barnard**. The other question is, I am troubled a little bit by this. I have no problem with the acquisition of holding companies across State lines to some degree. But I am just sort of puzzled as to how does that work.

Would all of the banks—let's say a holding company has more than one bank, and I presume some of the problem States are in that situation. Would all of the banks have to be in trouble for this acquisition to take place, or would have of them have to be in trouble? Or would it just have to be one of them?

Mr. **Martin**. I think particularly if it were the lead bank, the answer is obvious. If the lead bank is in trouble, then it would help in solving the problem to be able to get in there and——

Mr. **Barnard**. You wouldn't trigger this, though, that if, say, it was one of the more down-the-line banks that were in trouble.

Mr. **Martin**. I don't know the answer to the question. I think it's a case by case——

Mr. **Barnard**. I think that we are going to have to have some kind of determination as far as legislating as to how that would—how do you react to that, Dr. Seidman?

Mr. **Seidman**. Well, the way we're viewing it, if the bank qualified under the side limitation and so forth, if it qualified, then it would qualify the holding company.

Mr. **Barnard**. In other words, if it was just a $100 million bank, if we bring it down to that degree in a vast holding company, then the whole holding company could be subject to be acquired.

Mr. **Seidman**. I think that would be one test. The other test, and this is just suggested in our letter, is that the substantial part of the assets would have tc be involved in——

Mr. **Barnard**. A substantial number of the assets in the holding company.

Mr. **Seidman**. Yes, that's correct, would have to qualify in the $100,000, or $250,000, or whatever numbers are concerned.

Mr. **Barnard**. Mr. Clarke, have you got any observations on that?

Mr. **Clarke**. I concur with what we set out in the letter, that there would have to be a sizable portion of the holding company's assets involved before any kind of an acquisition would be triggered.

I think you also have to be careful that you don't facilitate the acquisition of certain assets out of a holding company that then leaves it holding other banks that are, in effect, crippled. We're not so concerned with the nonbanking assets of the holding company, but we are very concerned about making sure that if one bank is pulled out of a holding company that the holding company is not left incapable of supporting the banks that remain.

Mr. **Barnard**. This very important question—who is going to be the lead agency in all of this? Is it going to be the Fed? Is it going to be the Comptroller? Is it going to be the FDIC?

You know, I have been very interested in watching the disinterest or no interest in regulatory reform. And so all of a sudden now, I see we may have more of an intricate arrangement here as far as regulators are concerned.

How do you envision this arrangement? Who would precipitate the action?

Mr. **Martin**. Well, certainly the primary supervisor of the failing bank would be, I would think——

Mr. **Barnard**. But wouldn't the Fed be the supervisory agency for the holding company?

Mr. **Martin**. Yes, sir; and if we are involved, I think we'd look first of all to the primary supervisor and then, second, come in on our own.

It's a multiple regulatory system.

Mr. **Barnard**. Well, I'm saying who would trigger what? In other words——

Mr. **Martin**. The primary supervisor would trigger.

Mr. **Barnard**. In other words, there is a lead bank and a holding company that's in difficulty. The Comptroller then alerts the fact that there's got to be a takeover. But he doesn't actually carry out the administration of it. The Fed would take care of the administration now. And then if there's some losses that have got to be supplemented, Dr. Seidman comes into the question.

Is that the scenario?

Mr. **Martin**. We have a multiple regulatory structure.

Mr. **Barnard**. I know that we do. But how do you envision the steps? I mean, I think we have got—who comes first, the chicken or the egg?

Mr. **Martin**. I think the primary supervisor comes first.

Mr. **Barnard**. All right.

Chairman **St Germain**. The omlette.

Mr. **Barnard**. So——

Mr. **Seidman**. I agree with that, and the FDIC comes into the action if assistance is required.

Mr. **Barnard**. My time has expired, Mr. Chairman. I think that that was an intricate little arrangement.

Chairman **St Germain**. It was. Mr. Bartlett, do you have another question?

Mr. **Bartlett**. Thank you, Mr. Chairman.

I wanted to go over some of the forbearance items. The Fed, on page 10, and others talked about real estate and discussed severe strains in real estate, but without proposing solutions.

The Comptroller, on page 17, and others, suggested capital forbearance, accounting rules, and other things that you were doing. But in reading your testimony, it appears to me that those accounting rules changes and capital forbearance would apply to agriculture, ag banks, and perhaps to energy, but not to commercial real estate.

I suppose my question is which, if any, of your new accounting changes and your forbearance would apply under similar circumstances to commercial real estate to allow the sale or restructuring of nonperforming assets that are secured by real estate as a way to work their way out of the problem, similar to what you are doing with farm.

In other words, does your forbearance only apply to ag banks or does it also apply to commercial real estate?

Mr. **Martin**. I think that our forbearance applies to agricultural loans and to energy loans, but not to commercial real estate loans. I think commercial real estate is in a very different category in terms of its importance within the community, its importance in communities of very small size.

I think, in terms of the term of the lending, the term of the equity positions in that kind of an asset is quite different from agricultural loans, many of which are production credit loans and energy loans many of which are involved in the production of a commodity.

Mr. **Bartlett**. Governor, the results on the community would be the same if a bank's inability to handle the nonperforming loan results in the bank's failure in that community, whether it's commercial real estate or agriculture.

Mr. **Martin**. Certainly the impact upon the bank and the bank community relationship is the same. I was thinking about the producers of the product. It's quite different to think of the farm community, a small one-bank community, as distinct from a real estate developer coming in from New York and putting up the office building in Dallas.

Mr. **Bartlett**. Mr. Seidman.

Mr. **Seidman**. In our case, the automatic provisions of forbearance apply to energy and ag banks or any combination thereof.

If other banks had a similar problem, but did not qualify under that, then our rules apply so that they can apply for forbearance separately and their applications will be treated on a case-by-case basis.

So that will be available if they can make the case in their individual circumstance.

Mr. **Bartlett**. On an individual basis.

Mr. **Seidman**. Yes.

Mr. **Bartlett**. Mr. Clarke.

Mr. **Clarke**. The same is true with us.

I would add in response to your question about the accounting treatment, the financial accounting standards rule 15 that all of us have mentioned in our respective policies applies to all kinds of restructured credits, not just agricultural and energy credits, and was in existence before we even dreamed up this idea of capital forbearance. Also, the call report changes that are being made would apply to any restructured loans including restructured real estate loans.

Mr. **Bartlett**. Rule 15 then applies to both real estate—to all types of loans.

Mr. **Clarke**. That's correct. That's the generally accepted accounting principle.

Mr. **Bartlett**. But capital forbearance, which you say in your testimony will encourage banks to write down problem loans and develop workout plans, would only encourage that for ag banks and energy banks, not for other banks.

Mr. **Clarke**. To the extent that it is a somewhat mechanical rule that applies to agricultural, and oil, and gas banks, that is true. But as Chairman Seidman said, any of us, is willing to entertain on a case-by-case basis a reasonable proposal from a financial institution that is adversely impacted by a bad real estate market and give consideration to capital forbearance on the same terms.

Mr. **Bartlett**. I want to move over a little bit to some of the questions that Mr. Barnard and others have asked with regard to the interstate expansion.

Leaving aside the failing institution definition which we talked about before, I just want to clarify with you a little bit of your testimony.

I understand that you would retain the current priorities there in Garn-St Germain as far as the acquisition. Is that your proposal? The current priorities are you acquire first with an in-State, like kind institution——

Mr. **Martin**. The hoops.

Mr. **Bartlett**. The hoops, yes. And you would retain those.

Chairman **St Germain**. That's what they said.

Mr. **Martin**. Yes.

Mr. **Bartlett**. Would you prohibit in some way, either with regulation or with statute, "golden parachute" kinds, to use the vernacular, opportunities such as we read about in Continental Illinois, without—and I am not asking you to comment on whether that happened with Continental Illinois, but some way to assure that management is not somehow rewarded by failed or failing situations.

What provisions would you take?

Mr. **Martin**. I think that has to do with the details of the taking over of that institution. I think that part of the process is to make sure that the management that caused the failure is not enriched.

Chairman **St Germain**. Well, if the gentleman would yield.

Mr. **Bartlett**. I would be happy to yield.

Chairman **St Germain**. You are in court right now on Continental Illinois because of golden parachutes. Now the FDIC and the Fed are the ones that engineered that gorgeous takeover. So that answer doesn't apply, Governor Martin.

Mr. **Martin**. I think we learned something from the Continental process that we can apply——

Chairman **St Germain**. Do you think that in the future you will be able to say that there will be no assistance if there are golden parachutes?

Mr. **Martin**. I think we can say that having learned something from Continental Illinois, we will be more sensitive to any such arrangements——

Chairman **St Germain**. Well, let me rephrase the question.

Do you, the Comptroller, or the FDIC now have sufficient authority to prohibit such golden parachutes in the future? And if not—why don't we do this for the record? I want to know if you do. If you do, I want it for the record. If you do not, I would ask you to submit, when you submit your legislation, that you include the statutory authority or power that you feel is necessary to do this, if you don't have it now.

That's a clear question.

Mr. **Clarke**. Is your question, Mr. Chairman, directed specifically to the failing or failed bank, or to banks in general?

Chairman **St Germain**. I would say the failing or failed.

Mr. **Bartlett**. Whatever triggers the acquisition.

Chairman **St Germain**. Right.

Mr. **Clarke**. But you are not talking about general employee compensation.

Chairman **St Germain**. Oh, certainly not. Certainly not. No, what I think both Mr. Bartlett and I are referring to are situations where there's assistance, where taxpayers' dollars have come in, as in Continental Illinois, where the taxpayer has exposed and as a result thereof, there's a suit pending. Correct? You brought suit against officers of Continental Illinois.

That is what I am referring to.

Mr. Bartlett. Mr. Chairman, what you mean is that any time that the coffers of the FDIC is used, the golden parachutes would be prohibited.

Chairman St Germain. Yes.

Mr. Bartlett, we will give you 1 more minute because I cut in on your time.

Mr. Bartlett. Thank you. Thank you, Mr. Chairman. I appreciate your help with the question.

The purpose of the question is to make sure that the Congress has learned something from the Continental Illinois.

My other question is would you propose that this expansion be permanent or be sunsetted after a period of years so we can have a chance to look at it, particularly if it's in those States in which it's not used?

Mr. Seidman. I think it ought to be in place for at least a period of 5 years. I certainly wouldn't object to taking a look after that to see whether it ought to be sunsetted.

Mr. Martin. I would agree to the 5 years.

Mr. Bartlett. Mr. Clarke.

Mr. Clarke. I would also favor a sunset provision.

Mr. Bartlett. Thank you, Mr. Chairman.

Chairman St Germain. Mr. Wylie.

Mr. Wylie. Mr. Chairman, I have no further questions. But I would like to compliment our distinguished witnesses. I think their testimony has been very timely and very valuable for us today, and I would just say a hearty thank you for being here today.

Mr. Bartlett. Would the gentleman yield?

Mr. Wylie. Yes, sir.

Mr. Bartlett. I would like to associate myself with what Mr. Wylie has said. I think this is the finest cooperative spirit and attitude that I have seen in a long time with the regulators trying to resolve a problem, and I think it's been very, very helpful to us and I want to compliment all three of you on the testimony and the cooperation you've demonstrated to address this problem.

Thank you.

Mr. Wylie. Very good.

Chairman St Germain. It's not over yet, gentlemen. [Laughter.]

I mean, there is still the dessert. You haven't had dessert yet. You have had the appetizer. You have had the shrimp cocktail and you have had the steak and potatos and the vegetables and the salad, but we have been saving the dessert for you. And before we get to the dessert, there is one more vegetable. [Laughter.]

Governor Martin, on page 5, of your statement you say the 1982 energy boom in the Southwest—you say that by 1982, the energy boom in the Southwest had started to end. However, statistics supplied by the Federal Reserve, which are graphically shown on the charts on the wall, indicate that between 1982 and 1984, total energy loans increased from $38 billion to $56.9 billion.

Now, were banks lending more to keep the old loans from looking bad? Is that the reason for the increase at that point in time?

Mr. MARTIN. There were certainly many instances in which there was, in effect, "good money after bad".

Chairman ST GERMAIN. Rewriting of some?

Mr. MARTIN. It wasn't all in that category, but certainly, that was present. Yes, sir.

Chairman ST GERMAIN. Do you feel that the continuation in energy lending after 1982, after the boom was over, accounts for much of the problem that energy banks have today?

Mr. MARTIN. Much of the problem, yes, sir.

Chairman ST GERMAIN. Thank you. Mr. Schumer.

Mr. SCHUMER. Thank you, Mr. Chairman, and I will try to be——

Chairman ST GERMAIN. The dessert, incidentally.

Mr. SCHUMER. Yes, as sweet a little dessert as I can be. [Laughter.]

I do think that the plan that you gentlemen have brought before us is a reasonable plan to deal with the crisis. I don't agree with all parts of it, but I do think that it's a real effort and you deserve to be commended upon it. I am sympathetic to both the problems out there in the agriculture and energy areas, as well as the solution you propose, which is probably a cost-efficient solution.

It seems to me in a country with 14,000 banks, we would be better off having 10,000 strong ones than 14,000 weak ones. So I don't have any problem with the solution.

I do have a couple of questions I would like to ask. First, what's going to happen to the shareholders in the liquidated banks? We talked a little bit about golden parachutes, but what about the shareholders? Are there plans to make sure that the shareholders pay before the taxpayers or even the new bank does?

Mr. SEIDMAN. That is a basic rule in all of our FDIC-assisted transactions, that the shareholders not benefit from our assistance.

Mr. SCHUMER. So that would be a general rule——

Mr. SEIDMAN. Yes.

Mr. SCHUMER [continuing]. That the shareholders have to take it from the top.

OK. My second question relates to the community benefits area. I have an advocate of interstate banking. I have supported it all along. But I feel that interstate banking requires some responsibilities to the new community.

Do you believe that an out-of-State acquirer should be subject to any community benefits requirement which would ensure that the acquirer is really interested in owning and running the bank in its service area, as opposed to just using the bank for access to a market or for some other kind of purpose?

Mr. MARTIN. I think that would depend on the particular criteria of community benefits. I think that the acquirer should be subjected to the same kinds of controls that the departing management was subject to—that is, in terms of community redevelopment and so forth.

Mr. SCHUMER. But nothing additional?

Mr. MARTIN. Well, I also want to solve the problem, and I want to get this institution to come in and put capital in and clean up this mess.

Mr. SCHUMER. All right.

Mr. MARTIN. And I don't want to impose too many conditions—I don't want to complicate it so I don't get a lot of bidders.

Mr. SCHUMER. OK. The next question I have is what will be the impact of the proposed regulatory changes—capital forbearance and FASB 15—on the farmer himself? Will there be lower interest rates, for instance? What guarantees do we have of that kind of thing?

Mr. CLARKE. I would be glad to take a shot at that one. Part of the idea of encouraging the banks through this capital forbearance policy to restructure loans is to allow the banks to work with the farmer, or with the borrower in the case of an oil and gas loan. The restructuring of a loan can take all kinds of forms, but certainly one of the means that is frequently used is a reduction in interest rate to allow the borrower to get down to a cash-flow level that will service the debt. We hope that that will be——

Mr. SCHUMER. It certainly wouldn't be ruled out.

Mr. CLARKE. It would absolutely not be ruled out.

Mr. SCHUMER. OK. The next question, relating to FASB 15. We have similar problems with some other banks in terms of Third World lending.

As you know, the borrowers are in roughly the same position. Banks can't foreclose on these countries, but that doesn't mitigate the problem we have.

Are you considering applying the same kinds of reduction in standards to banks with serious Third World debt problems?

Mr. MARTIN. I don't think the FASB discussions at which I have been present have addressed that problem. I think you have a different set of criteria—the structural changes, the involvement of the IMF, the World Bank, and all these other things.

It seems to me that it's a different set of problems and opportunities.

Mr. SCHUMER. You know, when a bank restructures its loans to a troubled farm or a troubled energy company, there is a lot of restructuring that goes on within the company. It's not that different in terms of how a country is affected.

What I am thinking about is the problem the lender has.

Chairman ST GERMAIN. Would the gentleman yield?

Mr. SCHUMER. Yes, I would be happy to yield.

Chairman ST GERMAIN. Let me ask a question. The question from Mr. Schumer was: Do you recommend rule 15 for those international loans? My question now is, haven't the banks been using that already?

Mr. MARTIN. No, sir. The——

Chairman ST GERMAIN. Well, Mr. Seidman is saying yes, and now you are going to say no?

Mr. SEIDMAN. Well, what I was saying is that it's been available to banks to use since it has been GAAP accounting for 10 years.

Chairman ST GERMAIN. Yes. And so a lot of the major banks have been using it for their international loans.

Mr. SEIDMAN. I would assume in restructuring, yes. Where there's a restructured loan that qualifies, yes.

Chairman ST GERMAIN. You don't have a problem with that reply, do you, Governor Martin?

Mr. MARTIN. All I was saying, Mr. Chairman, was that in the discussions I have had with the AICPA and with the FASB, with regard to the application of 15, I have not heard that recommendation come up, and I do not know of any banks that are doing that.

Mr. Seidman may be right. I don't know of it.

Chairman ST GERMAIN. Well, I know my staff doesn't compare with the Martin monastics at the Fed, but they inform me that, indeed, the banks have been using it.

Would you have any information on that, Mr. Comptroller?

Mr. CLARKE. Mr. Chairman, I can't add to it. I have the impression, as Chairman Seidman does, that because the rule has been in effect for some time, banks have been making use of it.

Chairman ST GERMAIN. Thank you.

Mr. SCHUMER. But it hasn't—if the chairman would yield back—it hasn't resulted in reduction in interest rates to borrowers at all. In fact, you haven't seen too much of that happen, and that's what I was getting at, that the more flexibility in the accounting rules should be used to make the borrowers' plight, in one case, farmers and energy companies and the other Third World countries, easier.

Instead, what we hear talk about is making it tougher on them and imposing austerity. The squeeze that comes out of it seems to go to the benefit in Third World debt to the lender rather than the borrower.

But be that as it may, the other question would relate to capital changes as well. You could apply those to banks with Third World debt problems also, reduction in the capital needs. They're in trouble, the same logic would apply, yet it hasn't really happened.

I am not saying it should at this point. I am just wondering where you draw the line and how you make the differences.

Mr. MARTIN. I think in terms of developing country exposure, that the more exposure that a bank has, the more we will put pressure on it to bring its capital ratios up above the minimum.

Mr. SCHUMER. Thank you, Mr. Chairman.

Chairman ST GERMAIN. In other words, Mr. Schumer, the borrowers don't get very much help here; do they? Just the deferral. So, instead of amputating your leg, they just hold off for a period of time.

Gentlemen, I want to concur with my colleagues who have already expressed their appreciation to you for your assistance today.

I do have additional questions that I will submit to you in writing. And of course, we've already asked for some submissions in writing. We will look forward to those.

You know, oftentimes, and I am not being critical because I know how busy you are—Mr. Seidman brought out the monumental task you have. But in this instance, the responses to the inquiries are most important because you're going to be coming up with legislative requests for what can be looked upon as an emergency situation. We want to be as cooperative, considerate and knowledgeable as possible.

Therefore, the answers to those questions, particularly those I propounded to you from the chair today, are most important, as well as those of some of my colleagues.

So we would ask you to do your best for us. If you can't answer them all at the same time, send them up in sections. We don't mind.

The subcommittee is in recess to the call of the Chair.

[Whereupon, at 1:15 p.m., the subcommittee was recessed, to reconvene subject to the call of the Chair.]

APPENDIX

FERNAND J. ST GERMAIN RHODE ISLAND CHAIRMAN

FRANK ANNUNZIO ILLINOIS
CARROLL HUBBARD JR KENTUCKY
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MARGE ROUKEMA NEW JERSEY
DOUG BEREUTER NEBRASKA
STEVE BARTLETT TEXAS
TOBY ROTH WISCONSIN

March 17, 1986

Honorable Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
20th and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mr. Volcker:

To assist this Subcommittee in the discharge of its responsibilities, you, or your designee are requested to appear on Wednesday, April 9, 1986, in Room 2128, Rayburn House Office Building, at 10:00 a.m., to provide testimony to the Subcommittee on the nature and the magnitude of bank difficulties in the areas of agricultural lending, energy lending, and lending to less developed countries. You are specifically asked to testify on the following matters of concern to the Subcommittee.

1. In terms as precise as your resources permit, what is the nature and magnitude of bank difficulties in:

(a) agricultural lending,
(b) energy lending, and
(c) lending to less developed nations?

You are specifically requested to include in your testimony the information and statistics, as discussed with your staff, listed on the attached pages.

2.. Are there any changes in existing law or regulation affecting bank capital requirements or accounting practices that should, in your judgment, be implemented to ameliorate conditions in the farm, energy, and developing nation lending areas?

In accordance with Committee Rules, please deliver 175 copies of your prepared statement to Room B303 Rayburn House Office Building twenty-four hours in advance of your scheduled appearance. Your statement in its entirety will be included in the hearing record and, if delivered as requested, the statement will be made available to all Subcommittee Members in advance of the hearing. To provide all Subcommittee Members with sufficient time for questioning, the oral presentation of your prepared statement must be limited to ten minutes.

Sincerely,

Fernand J. St Germain
Chairman

FJStG:dTv

Please provide the needed information and statistics specified below.

AGRICULTURE

I. Agriculture States

- (A) The states in which bank agricultural loans are concentrated and the percentages of concentration in each state;
- (B) The states that account for the majority of agricultural banks and the number of agricultural banks in each of those states;
- (C) The states in which over half of the banks are agricultural banks; and
- (D) The states with the greatest number of agricultural banks with the number of agricultural banks in each state.

II. Agricultural Banks

- (A) Problem loans at agricultural banks as compared with non-agricultural banks, expressed as classified assets as a percentage of gross capital funds, on a quarterly basis from the fourth quarter of 1982 to the present:
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- (C) The number of problem agricultural banks semiannually from 1982 to the present, as compared with the number of other problem banks semiannually during the same time period; and
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III. One-bank Communities

From 1982 to the present, on a yearly basis, the number of:

- (A) Agricultural banks that were the only banks in their communities;
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The percentage of classified energy loans as a percentage of equity plus loan loss reserves, for banks in the following size categories:

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U.S. HOUSE OF REPRESENTATIVES
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OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-NINTH CONGRESS
ROOM B-303 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6051

[illegible]

March 17, 1986

Honorable L. William Seidman
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Dear Mr. Seidman:

To assist this Subcommittee in the discharge of its responsibilities, you are requested to appear on Wednesday, April 9, 1986, in Room 2128, Rayburn House Office Building, at 10:00 a.m., to provide testimony to the Subcommittee on the nature and the magnitude of bank difficulties in the areas of agricultural lending, energy lending, and lending to less developed countries. You are specifically asked to testify on the following matters of concern to the Subcommittee.

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Sincerely,

Fernand J. St Germain
Chairman

FJStG:sTv

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STEVE BARTLETT TEXAS
TOBY ROTH WISCONSIN

March 17, 1986

Honorable Robert L. Clarke
Comptroller of the Currency
490 L'Enfant Plaza East, S.W.
Washington, D.C. 20919

Dear Mr. Clarke:

To assist this Subcommittee in the discharge of its responsibilities, you are requested to appear on Wednesday, April 9, 1986, in Room 2128, Rayburn House Office Building, at 10:00 a.m., to provide testimony to the Subcommittee on the nature and the magnitude of bank difficulties in the areas of agricultural lending, energy lending, and lending to less developed countries. You are specifically asked to testify on the following matters of concern to the Subcommittee.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

April 4, 1986

RECEIVED

APR 7 1986

Subcommittee on Financial Institutions

The Honorable Fernand J. St Germain
Chairman
Subcommittee on Financial Institutions Supervision,
Regulation and Insurance
Committee on Banking, Finance and Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Chairman St Germain:

We are enclosing the statistical information you requested in your letter of March 17 as modified to reflect subsequent discussions with your staff on the form, content, and availability of the information to be submitted. Interagency meetings have been held to coordinate the compilation of the information and to eliminate duplication of effort. Each page of the submission contains a footnote indicating the agency source.

Please let me know if we can be of further assistance.

Sincerely,

Paul A Volcker

Enclosure

RECEIVED

APR 7 1986

Subcommittee on Financial Institutions

STATISTICAL INFORMATION REQUESTED BY THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND INSURANCE OF THE HOUSE COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS

Submitted by:

Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Reserve Board

April 4, 1986

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR INSURED COMMERCIAL BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF INSURED COMMERCIAL BANK AGRICULTURAL LOANS
ALABAMA	$372.8	0.8%
ALASKA	11.8	0.0
ARIZONA	569.3	1.2
ARKANSAS	691.6	1.5
CALIFORNIA	4,117.7	8.7
COLORADO	925.7	1.9
CONNECTICUT	26.4	0.1
DELAWARE	53.3	0.1
D.C.	13.3	0.0
FLORIDA	561.9	1.2
GEORGIA	611.6	1.3
HAWAII	51.3	0.1
IDAHO	694.0	1.5
ILLINOIS	3,046.4	6.4
INDIANA	1,640.1	3.5
IOWA	3,855.5	8.1
KANSAS	2,552.4	5.4
KENTUCKY	1,113.5	2.3
LOUISIANA	542.7	1.1
MAINE	28.6	0.1
MARYLAND	219.2	0.5
MASSACHUSETTS	55.9	0.1
MICHIGAN	789.8	1.7
MINNESOTA	2,440.2	5.1
MISSISSIPPI	635.6	1.3
MISSOURI	1,919.2	4.0
MONTANA	754.0	1.6
NEBRASKA	2,862.4	6.0
NEVADA	16.4	0.0
NEW HAMPSHIRE	5.4	0.0
NEW JERSEY	33.9	0.1
NEW MEXICO	271.1	0.6
NEW YORK	1,082.9	2.3
NORTH CAROLINA	445.6	0.9
NORTH DAKOTA	1,021.8	2.2
OHIO	1,054.5	2.2
OKLAHOMA	1,604.4	3.4
OREGON	392.6	0.8
PENNSYLVANIA	699.6	1.5
RHODE ISLAND	7.0	0.0
SOUTH CAROLINA	129.3	0.3
SOUTH DAKOTA	1,341.8	2.8
TENNESSEE	666.7	1.4
TEXAS	3,969.6	8.4
UTAH	135.3	0.3
VERMONT	57.6	0.1
VIRGINIA	374.0	0.8
WASHINGTON	961.6	2.0
WEST VIRGINIA	84.7	0.2
WISCONSIN	1,680.7	3.5
WYOMING	281.0	0.6
TOTAL	$47,473.5	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(A)

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR NATIONAL BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF NATIONAL BANK AGRICULTURAL LOANS
ALABAMA	$93.3	0.4%
ALASKA	5.8	0.0
ARIZONA	493.2	2.3
ARKANSAS	277.3	1.3
CALIFORNIA	3,469.1	15.9
COLORADO	583.3	2.7
CONNECTICUT	20.3	0.1
DELAWARE	1.8	0.0
D.C.	13.3	0.1
FLORIDA	284.0	1.3
GEORGIA	142.5	0.7
HAWAII	0.0	0.0
IDAHO	419.4	1.9
ILLINOIS	1,361.4	6.3
INDIANA	463.3	2.1
IOWA	814.4	3.7
KANSAS	892.8	4.1
KENTUCKY	325.6	1.5
LOUISIANA	104.4	0.5
MAINE	14.5	0.1
MARYLAND	150.6	0.7
MASSACHUSETTS	38.1	0.2
MICHIGAN	202.9	0.9
MINNESOTA	783.3	3.6
MISSISSIPPI	157.4	0.7
MISSOURI	457.8	2.1
MONTANA	377.7	1.7
NEBRASKA	1,334.2	6.1
NEVADA	13.2	0.1
NEW HAMPSHIRE	1.8	0.0
NEW JERSEY	23.4	0.1
NEW MEXICO	161.2	0.7
NEW YORK	617.7	2.8
NORTH CAROLINA	241.2	1.1
NORTH DAKOTA	345.7	1.6
OHIO	545.1	2.5
OKLAHOMA	874.9	4.0
OREGON	269.5	1.2
PENNSYLVANIA	354.3	1.6
RHODE ISLAND	6.9	0.0
SOUTH CAROLINA	59.9	0.3
SOUTH DAKOTA	590.0	2.7
TENNESSEE	195.3	0.9
TEXAS	2,499.3	11.5
UTAH	92.5	0.4
VERMONT	20.4	0.1
VIRGINIA	197.6	0.9
WASHINGTON	796.7	3.7
WEST VIRGINIA	32.8	0.2
WISCONSIN	359.8	1.7
WYOMING	174.8	0.8
TOTAL	$21,755.9	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(A)

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR STATE MEMBER BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF STATE MEMBER BANK AGRICULTURAL LOANS
ALABAMA	$45.3	1.2%
ALASKA	00.0	0.0
ARIZONA	3.3	0.1
ARKANSAS	11.3	0.3
CALIFORNIA	236.4	6.3
COLORADO	137.9	3.7
CONNECTICUT	00.0	0.0
DELAWARE	15.0	0.4
D.C.	00.0	0.0
FLORIDA	60.2	1.6
GEORGIA	23.6	0.6
HAWAII	00.0	0.0
IDAHO	58.8	1.6
ILLINOIS	218.9	5.8
INDIANA	208.0	5.5
IOWA	308.8	8.2
KANSAS	127.0	3.4
KENTUCKY	133.7	3.6
LOUISIANA	33.2	0.9
MAINE	2.3	0.1
MARYLAND	2.2	0.1
MASSACHUSETTS	16.4	0.4
MICHIGAN	234.7	6.2
MINNESOTA	90.3	2.4
MISSISSIPPI	4.4	0.1
MISSOURI	126.1	3.4
MONTANA	164.7	4.4
NEBRASKA	41.9	1.1
NEVADA	00.0	0.0
NEW HAMPSHIRE	0.2	0.0
NEW JERSEY	1.5	0.0
NEW MEXICO	8.1	0.2
NEW YORK	405.6	10.8
NORTH CAROLINA	00.0	0.0
NORTH DAKOTA	17.4	0.5
OHIO	262.1	7.0
OKLAHOMA	59.6	1.6
OREGON	11.7	0.3
PENNSYLVANIA	13.1	0.3
RHODE ISLAND	00.0	0.0
SOUTH CAROLINA	3.6	0.1
SOUTH DAKOTA	225.0	6.0
TENNESSEE	35.7	0.9
TEXAS	142.5	3.8
UTAH	12.5	0.3
VERMONT	00.0	0.0
VIRGINIA	111.5	3.0
WASHINGTON	5.1	0.1
WEST VIRGINIA	19.8	0.5
WISCONSIN	67.8	1.8
WYOMING	53.4	1.4
TOTAL	$3,760.4	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(A)

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR STATE NON-MEMBER BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF STATE NON-MEMBER BANK AGRICULTURAL LOANS
ALABAMA	$234.2	1.1%
ALASKA	5.9	0.0
ARIZONA	72.7	0.3
ARKANSAS	403.0	1.8
CALIFORNIA	412.3	1.9
COLORADO	204.5	0.9
CONNECTICUT	6.1	0.0
DELAWARE	36.5	0.2
D.C.	00.0	0.0
FLORIDA	217.8	1.0
GEORGIA	445.5	2.0
HAWAII	51.2	0.2
IDAHO	215.8	1.0
ILLINOIS	1,466.1	6.7
INDIANA	968.8	4.4
IOWA	2,732.3	12.4
KANSAS	1,532.6	7.0
KENTUCKY	654.2	3.0
LOUISIANA	405.2	1.8
MAINE	11.8	0.1
MARYLAND	66.4	0.3
MASSACHUSETTS	1.3	0.0
MICHIGAN	352.1	1.6
MINNESOTA	1,566.6	7.1
MISSISSIPPI	473.8	2.2
MISSOURI	1,335.4	6.1
MONTANA	211.6	1.0
NEBRASKA	1,486.2	6.8
NEVADA	3.2	0.0
NEW HAMPSHIRE	3.3	0.0
NEW JERSEY	9.0	0.0
NEW MEXICO	101.8	0.5
NEW YORK	59.6	0.3
NORTH CAROLINA	204.4	0.9
NORTH DAKOTA	658.7	3.0
OHIO	247.3	1.1
OKLAHOMA	669.9	3.1
OREGON	111.4	0.5
PENNSYLVANIA	332.2	1.5
RHODE ISLAND	0.1	0.0
SOUTH CAROLINA	65.8	0.3
SOUTH DAKOTA	526.7	2.4
TENNESSEE	435.8	2.0
TEXAS	1,327.8	6.0
UTAH	30.3	0.1
VERMONT	37.1	0.2
VIRGINIA	65.0	0.3
WASHINGTON	159.8	0.7
WEST VIRGINIA	32.0	0.1
WISCONSIN	1,253.2	5.7
WYOMING	52.8	0.2
TOTAL	$21,957.2	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(B)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR INSURED COMMERCIAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF INSURED COMMERCIAL AGRICULTURAL BANKS
ALABAMA	19	0.5%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	45	1.2
CALIFORNIA	1	0.0
COLORADO	69	1.8
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	6	0.2
GEORGIA	40	1.1
HAWAII	-	-
IDAHO	11	0.3
ILLINOIS	391	10.5
INDIANA	77	2.1
IOWA	505	13.5
KANSAS	403	10.8
KENTUCKY	75	2.0
LOUISIANA	24	0.6
MAINE	-	-
MARYLAND	3	0.1
MASSACHUSETTS	-	-
MICHIGAN	14	0.4
MINNESOTA	377	10.1
MISSISSIPPI	24	0.6
MISSOURI	260	7.0
MONTANA	78	2.1
NEBRASKA	378	10.1
NEVADA	1	0.0
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	6	0.2
NEW YORK	4	0.1
NORTH CAROLINA	2	0.1
NORTH DAKOTA	139	3.7
OHIO	48	1.3
OKLAHOMA	155	4.2
OREGON	5	0.1
PENNSYLVANIA	2	0.1
RHODE ISLAND	-	-
SOUTH CAROLINA	2	0.1
SOUTH DAKOTA	121	3.2
TENNESSEE	25	0.7
TEXAS	208	5.6
UTAH	2	0.1
VERMONT	-	-
VIRGINIA	2	0.1
WASHINGTON	16	0.4
WEST VIRGINIA	-	-
WISCONSIN	172	4.6
WYOMING	21	0.6
TOTAL	3,731	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(B)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR NATIONAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF NATIONAL AGRICULTURAL BANKS
ALABAMA	1	0.1%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	6	0.7
CALIFORNIA	-	-
COLORADO	36	4.4
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	0.1
GEORGIA	-	-
HAWAII	-	-
IDAHO	1	0.1
ILLINOIS	108	13.2
INDIANA	15	1.8
IOWA	71	8.6
KANSAS	90	11.0
KENTUCKY	12	1.5
LOUISIANA	2	0.2
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	2	0.2
MINNESOTA	67	8.2
MISSISSIPPI	1	0.1
MISSOURI	30	3.7
MONTANA	30	3.7
NEBRASKA	98	11.9
NEVADA	1	0.1
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	4	0.5
NEW YORK	2	0.2
NORTH CAROLINA	-	-
NORTH DAKOTA	24	2.9
OHIO	11	1.3
OKLAHOMA	59	7.2
OREGON	-	-
PENNSYLVANIA	2	0.2
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	17	2.1
TENNESSEE	1	0.1
TEXAS	97	11.8
UTAH	-	-
VERMONT	-	-
VIRGINIA	-	-
WASHINGTON	3	0.4
WEST VIRGINIA	-	-
WISCONSIN	20	2.4
WYOMING	9	1.1
TOTAL	821	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(B)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR STATE MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE MEMBER AGRICULTURAL BANKS
ALABAMA	-	-
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	-	-
CALIFORNIA	-	-
COLORADO	7	3.2
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	0.5
GEORGIA	-	-
HAWAII	-	-
IDAHO	3	1.4
ILLINOIS	24	11.0
INDIANA	14	6.4
IOWA	26	11.9
KANSAS	13	5.9
KENTUCKY	1	0.5
LOUISIANA	1	0.5
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	4	1.8
MINNESOTA	13	5.9
MISSISSIPPI	-	-
MISSOURI	11	5.0
MONTANA	23	10.5
NEBRASKA	6	2.7
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	-	-
NEW YORK	-	-
NORTH CAROLINA	-	-
NORTH DAKOTA	3	1.4
OHIO	14	6.4
OKLAHOMA	8	3.7
OREGON	2	0.9
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	20	9.1
TENNESSEE	-	-
TEXAS	12	5.5
UTAH	-	-
VERMONT	-	-
VIRGINIA	1	0.5
WASHINGTON	1	0.5
WEST VIRGINIA	-	-
WISCONSIN	5	2.3
WYOMING	6	2.7
TOTAL	219	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR STATE NON-MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE NON-MEMBER AGRICULTURAL BANKS
ALABAMA	18	0.7%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	39	1.4
CALIFORNIA	1	0.0
COLORADO	26	1.0
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	4	0.1
GEORGIA	40	1.5
HAWAII	-	-
IDAHO	7	0.3
ILLINOIS	259	9.6
INDIANA	48	1.8
IOWA	408	15.2
KANSAS	300	11.1
KENTUCKY	62	2.3
LOUISIANA	21	0.8
MAINE	-	-
MARYLAND	3	0.1
MASSACHUSETTS	-	-
MICHIGAN	8	0.3
MINNESOTA	297	11.0
MISSISSIPPI	23	0.9
MISSOURI	219	8.1
MONTANA	25	0.9
NEBRASKA	274	10.2
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	2	0.1
NEW YORK	2	0.1
NORTH CAROLINA	2	0.1
NORTH DAKOTA	112	4.2
OHIO	23	0.9
OKLAHOMA	88	3.3
OREGON	3	0.1
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	2	0.1
SOUTH DAKOTA	84	3.1
TENNESSEE	24	0.9
TEXAS	99	3.7
UTAH	2	0.1
VERMONT	-	-
VIRGINIA	1	0.0
WASHINGTON	12	0.4
WEST VIRGINIA	-	-
WISCONSIN	147	5.5
WYOMING	6	0.2
TOTAL	2,691	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR INSURED COMMERICAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF INSURED COMMERICAL BANKS IN STATE
ALABAMA	19	7.9%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	45	17.4
CALIFORNIA	1	0.2
COLORADO	69	15.1
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	6	1.5
GEORGIA	40	10.8
HAWAII	-	-
IDAHO	11	42.3
ILLINOIS	391	31.7
INDIANA	77	20.8
IOWA	505	81.2
KANSAS	403	64.7
KENTUCKY	75	22.5
LOUISIANA	24	8.0
MAINE	-	-
MARYLAND	3	3.3
MASSACHUSETTS	-	-
MICHIGAN	14	3.9
MINNESOTA	377	51.4
MISSISSIPPI	24	16.4
MISSOURI	260	38.6
MONTANA	78	46.2
NEBRASKA	378	83.4
NEVADA	1	6.3
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	6	6.3
NEW YORK	4	2.1
NORTH CAROLINA	2	3.2
NORTH DAKOTA	139	78.5
OHIO	48	15.1
OKLAHOMA	155	29.1
OREGON	5	7.5
PENNSYLVANIA	2	0.6
RHODE ISLAND	-	-
SOUTH CAROLINA	2	2.7
SOUTH DAKOTA	121	88.3
TENNESSEE	25	8.7
TEXAS	208	10.7
UTAH	2	3.7
VERMONT	-	-
VIRGINIA	2	1.2
WASHINGTON	16	16.3
WEST VIRGINIA	-	-
WISCONSIN	172	30.0
WYOMING	21	18.4
TOTAL	3,731	26.1%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR NATIONAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF NATIONAL BANKS IN STATE
ALABAMA	1	1.9%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	6	7.3
CALIFORNIA	-	-
COLORADO	36	15.1
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	0.7
GEORGIA	-	-
HAWAII	-	-
IDAHO	1	14.3
ILLINOIS	108	27.1
INDIANA	15	13.6
IOWA	71	64.5
KANSAS	90	53.9
KENTUCKY	12	15.4
LOUISIANA	2	2.8
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	2	1.7
MINNESOTA	67	31.6
MISSISSIPPI	1	3.0
MISSOURI	30	23.8
MONTANA	30	54.5
NEBRASKA	98	81.7
NEVADA	1	16.7
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	4	8.9
NEW YORK	2	1.9
NORTH CAROLINA	-	-
NORTH DAKOTA	24	55.8
OHIO	11	7.6
OKLAHOMA	59	25.5
OREGON	-	-
PENNSYLVANIA	2	1.1
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	17	68.0
TENNESSEE	1	1.7
TEXAS	97	9.2
UTAH	-	-
VERMONT	-	-
VIRGINIA	-	-
WASHINGTON	3	12.5
WEST VIRGINIA	-	-
WISCONSIN	20	16.8
WYOMING	9	15.3
TOTAL	821	16.7%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR STATE MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE MEMBER BANKS IN STATE
ALABAMA	-	-
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	-	-
CALIFORNIA	-	-
COLORADO	7	10.3
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	1.8
GEORGIA	-	-
HAWAII	-	-
IDAHO	3	100.0
ILLINOIS	24	35.8
INDIANA	14	34.1
IOWA	26	70.3
KANSAS	13	65.0
KENTUCKY	1	14.3
LOUISIANA	1	16.7
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	4	4.9
MINNESOTA	13	38.2
MISSISSIPPI	-	-
MISSOURI	11	29.7
MONTANA	23	56.1
NEBRASKA	6	66.7
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	-	-
NEW YORK	-	-
NORTH CAROLINA	-	-
NORTH DAKOTA	3	75.0
OHIO	14	20.3
OKLAHOMA	8	36.4
OREGON	2	15.4
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	20	80.0
TENNESSEE	-	-
TEXAS	12	17.1
UTAH	-	-
VERMONT	-	-
VIRGINIA	1	1.2
WASHINGTON	1	33.3
WEST VIRGINIA	-	-
WISCONSIN	5	22.7
WYOMING	6	24.0
TOTAL	219	20.5%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR STATE NON-MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE NON-MEMBER BANKS IN STATE
ALABAMA	18	11.2%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	39	22.7
CALIFORNIA	1	0.4
COLORADO	26	17.4
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	4	2.2
GEORGIA	40	13.2
HAWAII	-	-
IDAHO	7	43.8
ILLINOIS	259	33.8
INDIANA	48	21.8
IOWA	408	85.9
KANSAS	300	68.8
KENTUCKY	62	25.0
LOUISIANA	21	9.4
MAINE	-	-
MARYLAND	3	5.0
MASSACHUSETTS	-	-
MICHIGAN	8	5.0
MINNESOTA	297	60.9
MISSISSIPPI	23	20.9
MISSOURI	219	42.9
MONTANA	25	34.2
NEBRASKA	274	84.6
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	2	4.4
NEW YORK	2	3.9
NORTH CAROLINA	2	4.3
NORTH DAKOTA	112	86.2
OHIO	23	21.9
OKLAHOMA	88	31.4
OREGON	3	6.5
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	2	4.1
SOUTH DAKOTA	84	96.6
TENNESSEE	24	10.9
TEXAS	99	12.3
UTAH	2	6.1
VERMONT	-	-
VIRGINIA	1	2.4
WASHINGTON	12	16.9
WEST VIRGINIA	-	-
WISCONSIN	147	33.9
WYOMING	6	20.0
TOTAL	2,691	32.4%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM II(A)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR INSURED COMMERCIAL BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	4.9%	2.7%
1985 Q3	4.9	3.0
1985 Q2	4.7	3.0
1985 Q1	4.8	3.1
1984 Q4	3.8	3.0
1984 Q3	3.6	3.1
1984 Q2	3.5	3.2
1984 Q1	3.6	3.3
1983 Q4	3.0	3.3
1983 Q3	3.0	3.8
1983 Q2	2.9	3.8
1983 Q1	2.9	3.7
1982 Q4	2.4	3.4

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR NATIONAL BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	5.2%	2.9%
1985 Q3	5.4	3.2
1985 Q2	5.0	3.2
1985 Q1	5.0	3.2
1984 Q4	4.0	3.2
1984 Q3	3.8	3.3
1984 Q2	3.8	3.5
1984 Q1	3.7	3.6
1983 Q4	3.1	3.6
1983 Q3	3.0	4.1
1983 Q2	2.9	4.1
1983 Q1	2.9	4.0
1982 Q4	2.4	3.6

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM II(A)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS
AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR STATE MEMBER BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	4.5%	2.6%
1985 Q3	4.6	3.1
1985 Q2	4.5	3.1
1985 Q1	4.3	3.1
1984 Q4	3.4	3.0
1984 Q3	3.3	3.1
1984 Q2	3.2	3.1
1984 Q1	3.4	2.8
1983 Q4	3.1	2.9
1983 Q3	3.1	3.3
1983 Q2	2.9	3.3
1983 Q1	2.9	3.2
1982 Q4	2.7	2.9

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM II(A)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR STATE NON-MEMBER BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	4.8%	2.4%
1985 Q3	4.7	2.5
1985 Q2	4.5	2.4
1985 Q1	4.7	2.5
1984 Q4	3.7	2.4
1984 Q3	3.5	2.5
1984 Q2	3.4	2.5
1984 Q1	3.5	2.7
1983 Q4	2.9	2.7
1983 Q3	3.0	3.1
1983 Q2	2.8	3.1
1983 Q1	3.0	3.2
1982 Q4	2.5	3.0

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

FAILURES BY TYPE OF BANK

	1982	1983	1984	1985	1986*
Agriculture Banks	7	7	25	62	12
Other Commercial Banks	27	38	53	56	12
Savings Banks	8	3	1	2	0
Total	42	48	79	120	24

AGRICULTURAL BANK FAILURES BY CHARTER CLASS

	1982	1983	1984	1985	1986*
National Banks	2	2	5	10	5
State Member Banks	0	0	1	4	1
State Non-member Banks	5	5	19	48	6
Total	7	7	25	62	12

* Failures through March 27, 1986.

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: FDIC.

PROBLEM COMMERCIAL BANKS BY TYPE OF BANK

	Ag Banks	Other Commercial Banks	Total
Dec. 1982	*	*	*
June 1983	106 (22.0)	375 (78.0)	481
Dec. 1983	146 (24.2)	457 (75.8)	603
June 1984	231 (34.3)	440 (65.6)	671
Dec. 1984	288 (36.1)	512 (63.9)	800
June 1985	334 (35.5)	606 (64.5)	940
Dec. 1985	437 (39.8)	661 (60.2)	1,098
Feb. 1986	468 (40.5)	668 (59.5)	1,156

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Problem banks are defined as those rated composite 4 and 5 on the CAMEL rating system.

*Agricultural banks not segregated prior to June 1983.

Numbers in parentheses indicate percent of total problem commercial banks.

Source: FDIC.

PROJECTED FARM-BANK FAILURES AND ASSETS OF FAILED BANKS UNDER HIGH, MEDIUM, AND LOW LOSS SCENARIOS

	1986		1987		1988	
	Number of Banks	Assets (millions of dollars)	Number of Banks	Assets (millions of dollars)	Number of Banks	Assets (millions of dollars)
High	116	2,975	133	3,119	82	1,867
Medium	72	1,662	73	2,006	35	827
Low	38	813	49	1,423	5	160

Note: The medium loss scenario assumes that farm-loan losses would be equal to about 3 percent of farm-loans annually in 1986-1987, and then drop slightly to 2.5 percent in 1988. The 3 percent loss rate would be roughly equal to that experienced at commercial banks in 1985. The high loss scenario assumes loss rates of 4.5 percent in 1986-87 and 3.5 percent in 1988, while loss rates under the low loss scenario are equal to 2 percent in 1988-87, and 1 percent in 1988.

Source: FDIC.

PROBLEM AGRICULTURAL BANKS THAT ARE IN ONE-BANK COMMUNITIES

	April 1, 1986
Number of agricultural banks in one-bank communities	2,268
Number of problem banks by charter class:	
National Banks	51
State Member Banks	11
State Non-member Banks	203
Total problem banks	265

Definitions: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

One-bank communities are located outside of Standard Metropolitan Statistical Areas and are determined from Call Report files to have only one bank.

Source: FDIC.

AGRICULTURAL BANK FAILURES IN ONE-BANK COMMUNITIES

	1982	1983	1984	1985	1986*
National Banks	1	1	3	5	1
State Member Banks	0	0	0	2	1
State Nonmember Banks	4	2	15	36	5
Total	5	3	18	43	7

AGRICULTURAL BANK FAILURES IN ONE-BANK TOWNS THAT WERE PAYOFFS

	1982	1983	1984	1985	1986
National Banks	1	1	0	2	0
State Member Banks	0	0	0	0	0
State Nonmember Banks	2	1	0	9	1
Total	3	2	0 2/	11	1

Definitions: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

One-bank communities are located outside of Standard Metropolitan Statistical Areas and are determined from Call Report files to have only one bank.

1/ No deposit payoffs but there were 3 deposit transfers.

*Failures through March 27, 1986.

Source: FDIC.

ENERGY: ITEM I

SNC ENERGY LOANS AND COMMITMENTS 1/
(Dollars in Millions)

	Total $ Energy Loans and Commitments Outstanding	$ Classifications				Capital (Equity + Loss Res.)	Total Class. % of Cap.	Weighted 2/ Total Class. % of Cap.
		S/S	D	Loss	Total			
1977	6,837	280	50	0	330	33,770	1.0	.24
1978	8,705	357	76	48	480	37,264	1.3	.47
1979	10,076	397	47	0	444	40,504	1.1	.25
1980	15,939	243	0	0	243	44,264	0.5	.11
1981	20,515	90	283	0	373	50,289	0.7	.32
1982	38,146	965	195	25	1,185	59,718	2.0	.53
1983	46,293	5,405	423	390	6,218	66,798	9.3	2.52
1984	56,908	4,531	884	741	6,155	72,532	8.5	2.88
1985	48,981	6,962	1,066	410	8,438	86,194	9.8	2.71

1/ This information is derived from the annual interagency program for review and classification of Shared National Credits (SNC). A SNC is defined as any loan or group of loans to a borrower aggregating $20 million or more, either outstanding or committed under a formal lending agreement and (a) shared at its inception by two or more banks; or (b) a portion of which is sold to one or more banks with the purchasing bank assuming its pro-rata share of the credit risk. Therefore, the above data are not meant to represent the full extent of classified energy credits. Energy credits are those with SIC codes 1311, 1321, 1381, 1382, 1389, 2911 or 3533.

2/ The ratios represent classified loans in the Shared National Credit Program weighted on the basis of 20 percent of substandard loans plus 50 percent of doubtful loans plus 100 percent of loss loans to equity capital plus loan loss reserves as reflected in the June 30 Call Reports for 1977 through 1985. All figures are weighted averages.

Source: Federal Reserve Board

SNC ENERGY LOANS AND COMMITMENTS
25 INSTITUTIONS WITH LARGEST SNC ENERGY EXPOSURE
(Dollars in Millions)

	Total Energy Credits	Total Assets	Classified Energy Credits	Energy Credits/ Total Assets (%)	Class. Credits/ Total Energy Credits (%)	Number of Lenders by Asset Size		
						<300	300-1,000	>1,000
1982	$20,442	$280,682	$ 617	7.3	3.0	7	6	12
1983	19,355	193,607	3,476	10.0	18.0	9	3	13
1984	26,757	280,844	3,279	9.5	12.3	7	2	16
1985	14,667	155,523	3,091	9.4	21.1	9	6	10

Note: The above information is derived from the annual interagency program for review and classification of Shared National Credits (SNC). A SNC is defined as any loan or group of loans to a borrower aggregating $20 million or more, either outstanding or committed under a formal lending agreement and (a) shared at its inception by two or more banks; or (b) a portion of which is sold to one or more banks with the purchasing bank assuming its pro-rata share of the credit risk. Therefore, the above data are not meant to represent the full extent of classified energy credits. Energy credits are those with SIC codes of 1311, 1321, 1381, 1382, 1389, 2911 or 3533.

To determine the 25 largest exposures, first, energy credits were divided by total assets for each institution to determine its relative exposure. The resulting ratio was used to rank institutions in order from most exposed to least exposed, and then the institutions with the largest ratios were selected. Only institutions with a ratio of greater than five percent were included. Prior to 1982, fewer than 25 institutions had energy credits greater or equal to five percent of assets.

It was not possible to select a matched sample of 25 institutions for all time periods, so the 25 largest ratios were chosen for each year according to the procedure above. The number of lenders by asset size is shown to indicate the variation in the sample.

Source: Federal Reserve Board.

COUNTRY EXPOSURE LENDING SURVEY

SEPTEMBER 1985

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985 1/

TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/3/

(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)

(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	8196.0	2537.5	144.7	5513.8	973.1	1202.6	7689.6
CANADA	11144.2	443.2	604.8	10096.1	4890.4	588.9	15575.5
FRANCE	11378.6	1282.6	102.5	9993.4	5610.5	881.0	16485.0
GERMANY, FEDERAL REPUBLIC OF	4747.1	278.3	296.7	4172.0	3209.2	800.3	8181.6
ITALY	7100.2	247.8	97.1	6755.2	4006.2	486.0	11247.5
JAPAN	15509.6	225.7	158.9	15125.0	32523.1	1611.3	49259.4
NETHERLANDS	2569.9	261.7	360.7	1947.5	1527.2	461.1	3935.9
SWEDEN	3348.9	172.3	20.7	3155.9	214.5	203.4	3573.9
SWITZERLAND	3183.3	85.4	316.7	2781.1	1114.0	675.5	4570.7
UNITED KINGDOM	42250.1	21120.0	2299.6	18830.5	3561.2	3815.2	26207.0
TOTALS	109428.4	26654.7	4402.7	78370.9	57629.6	10725.9	146726.4
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	5784.1	45.8	399.3	5339.0	1744.6	486.8	7570.6
AUSTRIA	1598.4	20.3	23.0	1555.1	358.3	125.0	2038.4
DENMARK	2457.1	15.0	89.4	2352.7	522.3	262.4	3137.4
FINLAND	2038.6	70.8	113.4	1854.4	164.4	61.6	2080.5
GREECE	2772.8	41.2	172.0	2559.6	27.4	232.1	2819.1
ICELAND	255.8	1.0	21.1	233.7	7.0	.0	240.8
IRELAND, REPUBLIC OF	1201.2	93.3	37.0	1070.8	392.0	75.4	1538.2
NEW ZEALAND	1036.5	6.5	61.4	968.5	189.1	35.3	1193.0
NORWAY	3523.4	12.0	320.6	3190.8	72.5	437.6	3701.0
PORTUGAL	1432.5	128.7	73.5	1230.3	455.1	21.0	1706.4
SOUTH AFRICA	3441.1	197.6	179.6	3063.9	135.0	116.8	3315.8
SPAIN	4289.9	186.9	364.8	3738.1	698.7	51.5	4488.3
TURKEY	2244.3	8.0	225.9	2010.4	6.5	9.0	2025.9
OTHER	251.6	27.0	84.5	140.1	1.0	14.3	155.4
TOTALS	32327.9	854.3	2165.7	29307.8	4774.4	1929.1	36011.3
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	108.5	.0	.0	108.5	.0	.0	108.5
CZECHOSLOVAKIA	114.5	3.7	3.0	107.8	.0	3.0	110.8
GERMAN DEMOCRATIC REPUBLIC	384.9	.0	2.0	382.9	121.5	10.4	514.8
HUNGARY	720.9	7.4	30.3	683.2	.0	.0	684.2
POLAND	627.5	11.8	18.1	597.6	8.9	.0	606.6
ROMANIA	206.5	.0	1.0	205.5	.0	2.9	208.4
U.S.S.R.	156.6	4.8	25.2	126.6	15.0	.0	141.6
YUGOSLAVIA	2388.3	102.9	140.0	2145.4	5.0	57.8	2208.2
TOTALS	4708.1	130.6	219.6	4357.8	150.5	75.1	4583.5
OPEC MEMBERS							
ALGERIA	967.4	2.0	48.2	917.2	3.6	40.0	960.8
ECUADOR	2184.8	5.5	221.4	1957.8	.0	5.1	1962.9
GABON	65.7	1.0	14.8	49.9	.0	15.5	65.4

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
INDONESIA	2957.6	8.7	511.6	2437.3	108.7	139.5	2685.5
IRAN	2.1	.0	2.0	.1	.0	.0	.1
IRAQ	663.5	408.1	81.7	173.7	.2	.0	173.9
KUWAIT	846.2	11.4	35.0	799.8	243.2	22.0	1065.0
LIBYA	36.0	.0	11.0	25.0	.0	.0	25.0
NIGERIA	1431.4	91.0	313.5	1026.8	.0	30.0	1056.8
QATAR	13.8	.0	10.2	3.6	19.0	.0	22.6
SAUDI ARABIA	1742.1	28.0	215.0	1499.0	168.5	208.4	1876.0
UNITED ARAB EMIRATES	615.9	81.1	60.8	474.0	100.3	8.7	583.1
VENEZUELA	10221.0	22.1	430.2	9768.6	138.8	35.4	9942.9
TOTALS	21748.0	658.9	1955.6	19133.4	782.4	504.6	20420.5
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	8193.9	8.2	583.5	7602.1	854.7	36.8	8493.7
BOLIVIA	144.9	4.2	7.0	133.7	2.0	.0	135.7
BRAZIL	22903.6	469.8	945.2	21488.5	2228.4	214.9	23931.9
CHILE	6196.8	223.6	189.7	5783.3	15.1	68.4	5866.9
COLOMBIA	2615.4	115.7	53.5	2446.1	107.1	5.4	2558.7
COSTA RICA	446.7	2.6	26.5	417.5	.0	4.0	421.5
DOMINICAN REPUBLIC	484.0	20.2	42.3	421.4	.0	.0	421.4
EL SALVADOR	110.0	37.3	15.5	57.2	.0	.5	57.7
GUATEMALA	134.1	23.3	32.6	78.1	.0	.1	78.2
HONDURAS	136.7	9.1	27.1	100.4	.0	.0	100.4
JAMAICA	262.7	.4	102.2	160.1	.0	.0	160.1
MEXICO	25186.7	386.6	1417.1	23382.9	1207.4	193.1	24783.5
NICARAGUA	134.6	.0	1.0	133.5	.0	.0	133.5
PARAGUAY	190.4	.0	4.8	185.6	.0	2.0	187.6
PERU	1862.0	35.4	177.3	1649.1	1.3	4.2	1654.7
TRINIDAD AND TOBAGO	148.6	.0	22.6	126.0	.0	2.2	128.2
URUGUAY	923.4	2.4	30.7	890.3	.0	2.6	892.9
OTHER	119.5	51.4	18.3	49.8	3.0	.3	53.1
TOTALS	70194.7	1390.4	3697.6	65106.6	4419.1	534.8	70060.6
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA, MAINLAND	491.4	.0	.0	491.4	551.6	73.7	1116.8
CHINA, TAIWAN	2119.2	120.0	69.3	1929.9	183.6	170.0	2283.5
INDIA	883.2	11.0	16.7	855.5	368.1	86.7	1310.4
ISRAEL	1674.1	124.0	73.2	1476.9	86.9	335.0	1898.8
JORDAN	227.2	8.1	13.7	205.4	122.3	2.0	329.8
KOREA, SOUTH	9893.4	844.7	211.0	8837.6	838.9	753.8	10430.5
MALAYSIA	1477.0	4.5	60.0	1412.5	171.3	68.4	1652.2
PAKISTAN	176.7	1.1	1.1	174.4	19.0	21.8	215.2
PHILIPPINES	5475.3	156.5	268.2	5050.5	127.6	47.3	5225.4
SYRIA	28.2	.0	2.0	26.2	.0	1.0	27.2
THAILAND	1892.3	49.7	64.6	1778.0	311.7	10.3	2100.1

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	929.1	72.7	185.2	671.1	36.9	4.3	712.4
TOTALS	25267.7	1392.4	965.2	22910.0	2818.2	1574.5	27302.8
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	225.3	.0	91.3	134.0	.0	5.0	139.0
EGYPT	1025.8	216.1	135.6	674.1	44.4	4.6	723.1
GHANA	11.1	.0	9.1	2.0	.0	1.0	3.0
IVORY COAST	422.8	1.0	9.6	412.2	.0	.0	412.2
KENYA	82.4	.0	6.4	76.0	.0	.0	76.0
MALAWI	45.6	.0	1.0	44.6	3.0	.0	47.6
MOROCO	945.3	119.5	3.2	822.6	10.0	9.0	841.6
SENEGAL	63.4	.0	.0	63.4	.0	.2	63.6
SUDAN	71.6	.4	4.4	66.8	1.0	.0	67.8
TUNISIA	228.5	3.5	63.0	162.0	.0	.0	162.0
ZAIRE	25.3	.0	15.0	10.3	.0	.0	10.3
ZAMBIA	89.0	.0	28.2	60.8	.0	.0	60.8
OTHER	684.7	13.9	245.0	425.8	2.0	5.7	433.6
TOTALS	3921.3	354.4	611.8	2955.0	60.4	25.6	3041.1
OFFSHORE BANKING CENTERS							
BAHAMAS	6258.3	5375.5	319.2	563.5	28.0	49.4	641.0
BAHRAIN	1501.6	789.4	79.6	632.5	212.9	16.9	862.4
BERMUDA	592.6	3.8	297.2	291.6	1.0	54.9	347.5
BRITISH WEST INDIES	8588.1	8174.6	138.7	274.7	34.8	13.0	322.5
HONG KONG	6716.3	3207.4	987.7	2521.1	196.7	530.5	3248.4
LEBANON	88.0	.8	24.4	62.8	24.4	5.3	92.5
LIBERIA	1574.9	1.0	1447.5	126.4	.0	4.9	131.3
MACAO	239.8	152.2	1.5	86.1	.0	5.8	91.9
NETHERLANDS ANTILLES	1039.7	192.7	589.4	257.5	5.0	47.5	310.0
PANAMA	3076.8	959.3	1138.9	978.5	29.0	57.6	1065.1
SINGAPORE	6127.7	4537.4	349.2	1241.0	169.1	216.0	1626.2
TOTALS	35804.4	23394.5	5373.6	7036.2	701.0	1002.0	8739.3
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.7	.0	.0	.7	.0	.0	.7
ASIAN REGIONAL	2.0	.0	.0	2.0	.0	1.0	3.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	489.7	2.0	13.0	474.7	4.0	15.0	493.7
LATIN AMERICAN REGIONAL	17.1	.0	1.0	16.1	10.0	11.0	37.1
MIDDLE EASTERN REGIONAL	99.0	.0	.0	99.0	.0	.0	99.0
W. EUROPEAN REGIONAL	368.8	.0	.0	368.8	5.6	40.0	414.4
TOTALS	977.3	2.0	14.0	961.3	19.6	67.0	1047.9
Grand Totals	304378.0	54832.4	19406.1	230139.4	71355.4	16438.8	317933.7

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985

(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	8196.0	6792.9	581.8	821.2	7442.9	437.3	315.7
CANADA	11144.2	5548.0	426.2	5169.8	7319.0	1527.5	2297.7
FRANCE	11378.6	8482.1	1619.6	1276.8	9090.9	1301.8	985.8
GERMANY, FEDERAL REPUBLIC OF	4747.1	1650.9	787.3	2308.8	3046.8	1319.5	380.7
ITALY	7100.2	3986.7	2055.7	1057.7	4401.7	1746.3	952.2
JAPAN	15509.6	9132.5	182.6	6194.4	12481.6	2477.5	550.4
NETHERLANDS	2569.9	1010.5	215.7	1343.7	1871.9	287.9	410.0
SWEDEN	3348.9	2143.7	467.4	737.7	2612.3	383.9	352.7
SWITZERLAND	3183.3	1481.8	155.9	1545.5	2568.8	262.2	352.3
UNITED KINGDOM	42250.1	30817.2	1269.7	10163.1	36438.7	3702.1	2109.2
TOTALS	109428.4	71046.7	7762.3	30619.2	87275.0	13446.3	8707.0
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	5784.1	691.0	480.0	4613.0	2619.5	1581.7	1582.9
AUSTRIA	1598.4	1128.1	362.5	107.7	1280.5	201.4	116.5
DENMARK	2457.1	759.0	232.8	1465.2	1553.2	620.2	283.5
FINLAND	2038.6	1045.8	381.2	611.5	1417.6	470.4	150.6
GREECE	2772.8	161.7	864.7	1746.4	961.2	1203.5	608.0
ICELAND	255.8	77.0	98.2	80.6	120.8	81.0	54.0
IRELAND, REPUBLIC OF	1201.2	291.0	664.3	245.8	542.0	319.3	339.7
NEW ZEALAND	1036.5	70.2	186.1	780.0	405.6	280.0	350.8
NORWAY	3523.4	1005.1	148.0	2370.2	1719.4	991.8	812.1
PORTUGAL	1432.5	557.9	778.6	95.9	745.7	559.1	127.6
SOUTH AFRICA	3441.1	2231.3	180.3	1029.4	2810.2	574.5	56.4
SPAIN	4289.9	1762.3	1035.7	1491.8	2191.5	1411.5	686.8
TURKEY	2244.3	551.5	1473.8	218.8	1188.8	918.5	137.0
OTHER	251.6	44.8	32.1	174.7	131.3	99.5	20.8
TOTALS	32327.9	10377.3	6918.8	15031.7	17687.8	9312.9	5327.1
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	108.5	14.1	90.0	4.4	88.5	20.0	.0
CZECHOSLOVAKIA	114.5	71.4	39.1	4.0	73.9	40.5	.0
GERMAN DEMOCRATIC REPUBLIC	384.9	293.7	72.2	18.9	314.5	69.0	1.3
HUNGARY	720.9	119.7	598.7	2.4	363.6	262.7	94.6
POLAND	627.5	164.1	453.4	10.0	180.3	319.2	127.9
ROMANIA	206.5	10.1	196.4	.0	99.0	102.0	5.5
U.S.S.R.	156.6	20.4	128.0	8.2	63.3	79.9	13.4
YUGOSLAVIA	2388.3	1253.9	910.6	223.7	978.8	1123.0	286.4
TOTALS	4708.1	1947.6	2488.7	271.7	2162.3	2016.5	529.2
OPEC MEMBERS							
ALGERIA	967.4	420.9	421.9	124.5	304.5	325.2	337.7
ECUADOR	2184.8	185.2	1817.7	181.7	1060.4	766.9	357.3
GABON	65.7	.0	53.2	12.5	35.9	22.7	7.0
INDONESIA	2957.6	257.6	828.1	1871.9	1673.7	811.7	472.1

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
IRAN	2.1	.0	.0	2.1	2.1	.0	.0
IRAQ	663.5	511.6	150.9	1.0	383.1	279.3	1.1
KUWAIT	846.2	589.1	29.0	228.0	783.3	62.9	.0
LIBYA	36.0	10.0	15.0	11.0	36.0	.0	.0
NIGERIA	1431.4	331.0	971.6	128.8	946.5	404.8	80.1
QATAR	13.8	.0	.0	13.7	9.8	3.0	1.0
SAUDI ARABIA	1742.1	374.3	29.0	1338.7	1259.4	282.1	200.6
UNITED ARAB EMIRATES	615.9	325.7	162.2	127.9	499.5	94.0	22.4
VENEZUELA	10221.0	2250.1	5053.3	2917.5	8527.1	1347.6	346.1
TOTALS	21748.0	5256.0	9532.2	6959.7	15521.7	4400.6	1825.6
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	8193.9	1562.0	4496.0	2135.7	5717.1	2365.0	616.6
BOLIVIA	144.9	17.7	104.2	22.9	131.9	10.0	3.0
BRAZIL	22903.6	7193.4	11933.8	3776.3	8675.5	8691.3	5536.8
CHILE	6196.8	2657.4	2624.3	915.0	2277.5	2921.2	998.0
COLOMBIA	2615.4	979.7	1017.1	618.5	1487.3	713.1	414.9
COSTA RICA	446.7	21.8	384.0	40.8	149.7	236.5	60.5
DOMINICAN REPUBLIC	484.0	37.2	381.4	65.3	290.3	178.9	14.7
EL SALVADOR	110.0	64.4	34.6	10.8	63.5	45.4	1.0
GUATEMALA	134.1	32.3	58.1	43.7	75.4	54.7	4.0
HONDURAS	136.7	20.6	69.9	46.1	97.0	37.4	2.2
JAMAICA	262.7	.9	257.3	4.5	101.9	123.6	37.2
MEXICO	25186.7	4170.2	13346.2	7670.2	8177.5	10135.4	6873.7
NICARAGUA	134.6	11.4	118.1	5.0	98.6	12.9	23.1
PARAGUAY	190.4	7.3	126.4	56.6	91.2	89.2	10.0
PERU	1862.0	316.0	1280.7	265.1	1226.1	496.8	139.0
TRINIDAD AND TOBAGO	148.6	.5	141.1	7.0	67.5	44.2	36.8
URUGUAY	923.4	36.8	786.9	99.7	343.7	553.4	26.2
OTHER	119.5	62.8	48.5	8.2	96.7	14.8	8.0
TOTALS	70194.7	17193.0	37209.3	15792.2	28664.2	26724.3	14806.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	491.4	280.0	128.0	83.2	418.2	38.6	34.6
CHINA,TAIWAN	2119.2	828.3	625.0	665.7	1323.4	562.8	232.8
INDIA	883.2	202.8	302.4	378.0	421.6	263.6	197.9
ISRAEL	1674.1	1162.0	320.3	191.7	1187.2	416.3	70.4
JORDAN	227.2	95.8	102.3	29.1	156.8	51.8	18.6
KOREA, SOUTH	9893.4	4895.0	2044.2	2954.2	6566.7	2216.9	1109.8
MALAYSIA	1477.0	193.5	720.2	563.2	371.2	714.2	391.5
PAKISTAN	176.7	16.8	101.7	58.1	98.1	78.6	.0
PHILIPPINES	5475.3	870.1	3335.9	1269.2	2804.4	2045.6	625.2
SYRIA	28.2	20.5	3.7	4.0	28.2	.0	.0
THAILAND	1892.3	999.5	170.6	722.0	1497.8	313.8	80.5
OTHER	929.1	238.7	318.2	372.1	335.8	463.1	130.1
TOTALS	25267.7	9803.6	8173.1	7290.9	15210.1	7165.9	2891.6

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	225.3	16.8	76.0	132.5	59.7	153.6	12.0
EGYPT	1025.8	675.6	113.0	237.2	758.4	211.8	55.5
GHANA	11.1	1.0	8.1	2.0	6.4	4.7	.0
IVORY COAST	422.8	15.8	348.2	58.8	147.9	177.0	97.9
KENYA	82.4	2.4	23.3	56.7	62.7	18.7	1.0
MALAWI	45.6	17.6	24.0	4.0	34.8	10.7	.0
MOROCO	945.3	506.5	395.7	43.1	711.9	222.0	11.4
SENEGAL	63.4	2.0	34.2	27.2	38.0	22.6	2.7
SUDAN	71.6	15.4	52.9	3.3	55.2	4.3	12.1
TUNISIA	228.5	74.7	141.8	12.0	140.5	64.8	23.2
ZAIRE	25.3	.0	25.3	.0	17.8	7.5	.0
ZAMBIA	89.0	3.1	77.1	8.8	45.1	19.8	24.0
OTHER	684.7	141.1	372.2	171.4	429.4	188.3	66.9
TOTALS	3921.3	1472.0	1692.2	757.0	2508.4	1106.2	306.7
OFFSHORE BANKING CENTERS							
BAHAMAS	6258.3	5786.8	33.0	438.5	5946.9	234.6	76.7
BAHRAIN	1501.6	1406.5	43.0	52.1	1456.2	38.4	7.0
BERMUDA	592.6	55.5	59.0	478.0	445.4	65.1	82.0
BRITISH WEST INDIES	8588.1	8383.4	67.7	137.0	8416.5	118.6	53.0
HONG KONG	6716.3	4286.4	82.7	2347.2	5694.2	638.0	384.1
LEBANON	88.0	41.6	1.3	45.1	80.6	5.4	2.0
LIBERIA	1574.9	11.4	50.9	1512.6	527.6	704.9	342.4
MACAO	239.8	214.7	7.0	18.1	225.6	7.9	6.3
NETHERLANDS ANTILLES	1039.7	248.4	22.9	768.3	538.3	333.2	168.1
PANAMA	3076.8	1162.4	381.0	1533.3	1962.5	748.2	366.0
SINGAPORE	6127.7	5130.3	113.8	883.5	5683.9	271.7	172.1
TOTALS	35804.4	26727.8	862.5	8213.9	30978.2	3166.3	1659.8
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.7	.0	.7	.0	.7	.0	.0
ASIAN REGIONAL	2.0	.0	2.0	.0	1.0	.0	1.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	489.7	.0	489.7	.0	147.0	128.5	214.2
LATIN AMERICAN REGIONAL	17.1	.0	17.1	.0	1.0	2.0	14.1
MIDDLE EASTERN REGIONAL	99.0	.0	99.0	.0	97.0	.0	2.0
W. EUROPEAN REGIONAL	368.8	.0	368.8	.0	119.4	104.4	145.0
TOTALS	977.3	.0	977.3	.0	366.1	234.9	376.3
**** GRAND **** ** TOTALS **	304378.0	143824.4	75616.8	84936.7	200374.0	67574.2	36429.7

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1544.9	626.8	8.0	910.0	328.6	33.9	1272.6
CANADA	2353.4	174.7	162.3	2016.4	1169.0	114.8	3300.4
FRANCE	2184.3	456.4	11.3	1716.6	1996.8	56.6	3770.0
GERMANY, FEDERAL REPUBLIC OF	358.2	38.1	34.9	285.1	853.2	117.7	1256.1
ITALY	1401.1	38.5	.1	1362.5	1246.3	58.9	2667.7
JAPAN	2817.1	53.3	68.9	2694.9	9197.2	169.9	12062.0
NETHERLANDS	427.5	28.8	103.9	294.7	376.5	34.7	706.0
SWEDEN	608.4	.0	9.7	598.7	34.0	24.2	657.0
SWITZERLAND	541.6	12.8	1.4	527.4	310.0	117.2	954.7
UNITED KINGDOM	8385.9	5031.7	285.4	3068.6	901.1	271.1	4240.9
TOTALS	20622.8	6461.2	686.1	13475.4	16413.0	999.3	30887.8
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	1289.0	23.5	30.8	1234.7	467.9	208.0	1910.7
AUSTRIA	307.8	5.0	.0	302.8	95.4	34.6	432.8
DENMARK	304.5	.0	.0	304.5	160.4	4.5	469.5
FINLAND	280.9	2.0	.0	278.9	41.2	.0	320.2
GREECE	261.4	6.2	.3	254.9	8.4	41.1	304.4
ICELAND	24.8	1.0	.0	23.8	2.0	.0	25.8
IRELAND, REPUBLIC OF	214.4	18.1	.0	196.2	182.6	.0	378.9
NEW ZEALAND	251.9	2.3	7.2	242.3	49.7	14.2	306.2
NORWAY	371.3	.0	2.0	369.3	41.0	9.9	420.3
PORTUGAL	241.9	22.2	.0	219.7	92.6	13.0	325.3
SOUTH AFRICA	738.8	111.6	12.4	614.8	43.0	25.4	683.3
SPAIN	706.8	40.0	3.0	663.8	169.5	.0	833.3
TURKEY	448.9	2.0	66.2	380.7	1.5	.0	382.2
OTHER	12.5	.0	.1	12.4	.0	.0	12.4
TOTALS	5455.6	234.0	122.0	5099.5	1355.4	350.9	6805.9
EASTERN EUROPE							
BULGARIA	9.5	.0	.0	9.5	.0	.0	9.5
CZECHOSLOVAKIA	10.0	.0	.0	10.0	.0	.0	10.0
GERMAN DEMOCRATIC REPUBLIC	41.2	.0	.0	41.2	10.0	10.0	61.2
HUNGARY	146.4	2.0	3.0	141.4	.0	.0	141.4
POLAND	87.1	.0	5.0	82.1	.0	.0	82.1
ROMANIA	13.9	.0	.0	13.9	.0	2.9	16.8
U.S.S.R.	11.2	.0	8.2	3.0	9.0	.0	12.0
YUGOSLAVIA	426.4	13.0	5.9	407.4	.0	12.0	419.4
TOTALS	745.9	15.0	22.1	708.7	19.0	24.9	752.6
OPEC MEMBERS							
ALGERIA	238.4	.0	.2	238.2	3.6	.0	241.8
ECUADOR	297.3	3.7	.2	293.4	.0	.0	293.4
GABON	5.6	.0	.3	5.3	.0	.0	5.3

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
INDONESIA	377.2	5.2	77.5	294.4	36.8	38.5	369.7
IRAN	2.0	.0	2.0	.0	.0	.0	.0
IRAQ	78.3	3.1	1.5	73.7	.2	.0	73.9
KUWAIT	97.7	.0	2.0	95.7	100.0	.0	195.7
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	187.8	4.9	35.0	147.9	.0	.0	147.9
QATAR	.0	.0	.0	.0	5.0	.0	5.0
SAUDI ARABIA	94.6	.0	11.1	83.5	35.8	1.0	120.3
UNITED ARAB EMIRATES	82.2	15.8	7.4	59.0	43.3	.0	102.3
VENEZUELA	1722.6	2.0	98.1	1622.4	44.0	.0	1666.4
TOTALS	3184.3	34.7	235.4	2914.1	268.7	39.5	3222.3
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	1592.0	1.0	82.6	1508.4	99.5	17.0	1624.9
BOLIVIA	37.0	1.9	.5	34.6	.0	.0	34.6
BRAZIL	4108.9	79.7	168.4	3860.7	529.9	127.3	4518.0
CHILE	1091.4	35.4	56.7	999.3	1.0	6.0	1006.3
COLOMBIA	364.2	3.0	22.5	338.7	34.1	2.0	374.8
COSTA RICA	124.4	1.0	8.4	115.0	.0	2.0	117.0
DOMINICAN REPUBLIC	64.0	12.2	.3	51.5	.0	.0	51.5
EL SALVADOR	6.8	1.6	4.0	1.2	.0	.0	1.2
GUATEMALA	13.8	.0	5.5	8.3	.0	.0	8.3
HONDURAS	30.4	1.6	11.0	17.8	.0	.0	17.8
JAMAICA	18.1	.1	11.0	7.0	.0	.0	7.0
MEXICO	4832.6	61.5	308.6	4462.4	386.1	75.3	4923.9
NICARAGUA	40.5	.0	.0	40.5	.0	.0	40.5
PARAGUAY	3.7	.0	.6	3.1	.0	.0	3.1
PERU	442.1	1.8	69.6	370.7	.0	.0	370.7
TRINIDAD AND TOBAGO	22.1	.0	19.6	2.5	.0	.2	2.7
URUGUAY	123.3	1.4	5.6	116.3	.0	.0	116.3
OTHER	24.7	5.4	9.1	10.2	.0	.0	10.2
TOTALS	12940.5	207.7	784.1	11948.6	1050.7	229.8	13229.2
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	96.6	.0	.0	96.6	167.8	2.5	267.0
CHINA,TAIWAN	505.8	37.0	11.1	457.7	50.1	19.2	527.0
INDIA	151.1	.0	.7	150.4	94.7	74.1	319.3
ISRAEL	269.4	64.5	19.6	185.3	16.4	3.0	204.7
JORDAN	9.5	.1	1.1	8.3	35.1	.0	43.4
KOREA, SOUTH	2697.5	336.6	34.6	2326.2	277.4	144.7	2748.4
MALAYSIA	265.6	1.5	.0	264.1	57.8	5.0	326.9
PAKISTAN	1.7	1.1	.0	.6	2.0	.0	2.6
PHILIPPINES	1188.6	14.5	59.7	1114.3	14.9	36.0	1165.2
SYRIA	3.0	.0	2.0	1.0	.0	.0	1.0

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
THAILAND	514.5	11.3	8.6	494.6	105.6	2.2	602.4
OTHER	76.2	19.3	4.5	52.4	1.0	2.0	55.4
TOTALS	5779.8	486.0	142.0	5151.7	823.0	288.8	6263.6
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.8	.0	1.3	23.5	.0	.0	23.5
EGYPT	189.6	50.1	10.7	128.8	20.4	.6	149.8
GHANA	2.0	.0	2.0	.0	.0	.0	.0
IVORY COAST	43.6	.0	.0	43.6	.0	.0	43.6
KENYA	.4	.0	.0	.4	.0	.0	.4
MALAWI	4.2	.0	.0	4.2	.0	.0	4.2
MOROCO	94.6	13.5	.2	80.9	3.0	4.0	87.9
SENEGAL	2.4	.0	.0	2.4	.0	.0	2.4
SUDAN	.7	.4	.3	.0	.0	.0	.0
TUNISIA	6.6	1.0	.0	5.6	.0	.0	5.6
ZAIRE	2.0	.0	2.0	.0	.0	.0	.0
ZAMBIA	3.9	.0	.0	3.9	.0	.0	3.9
OTHER	71.8	5.1	18.3	48.4	.0	.0	48.4
TOTALS	446.8	70.1	34.8	341.9	23.4	4.6	369.9
OFFSHORE BANKING CENTERS							
BAHAMAS	993.3	813.0	32.5	147.7	6.0	3.0	156.8
BAHRAIN	415.4	221.6	5.0	188.7	69.4	14.1	272.3
BERMUDA	48.3	.0	.0	48.3	.0	9.0	57.4
BRITISH WEST INDIES	1987.2	1946.0	17.7	23.5	.0	2.0	25.5
HONG KONG	1707.6	1092.3	88.6	526.6	61.0	102.3	689.9
LEBANON	7.4	.0	2.4	5.0	1.9	.0	6.9
LIBERIA	227.2	.0	198.1	29.0	.0	.0	29.0
MACAO	84.3	50.6	.8	32.9	.0	.0	32.9
NETHERLANDS ANTILLES	99.4	26.3	44.5	28.6	.0	12.7	41.3
PANAMA	783.1	548.2	68.4	166.5	7.0	23.7	197.2
SINGAPORE	1472.4	1272.0	29.4	170.9	17.4	11.6	199.9
TOTALS	7826.0	5970.2	487.6	1368.0	162.7	178.4	1709.3
INTERNATIONAL & REGIONAL ORGANIZATIONS							
INTERNATIONAL	112.0	.0	.0	112.0	.0	10.0	122.0
LATIN AMERICAN REGIONAL	4.0	.0	.0	4.0	.0	10.0	14.0
W. EUROPEAN REGIONAL	166.0	.0	.0	166.0	.0	30.0	196.0
TOTALS	282.0	.0	.0	282.0	.0	50.0	332.0
**** GRAND **** ** TOTALS **	57284.0	13479.2	2514.4	41290.3	20116.1	2166.4	63572.8

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1544.9	1507.1	16.3	21.4	1517.3	23.2	4.3
CANADA	2353.4	1505.3	67.2	780.7	2060.1	123.7	169.5
FRANCE	2184.3	1870.9	230.3	83.1	1856.8	175.3	152.2
GERMANY, FEDERAL REPUBLIC OF	358.2	191.7	18.9	147.5	274.9	56.8	26.5
ITALY	1401.1	846.4	360.6	194.0	929.2	301.8	170.0
JAPAN	2817.1	2119.3	32.4	665.3	2478.9	310.0	28.2
NETHERLANDS	427.5	135.0	119.0	173.4	242.3	50.4	134.7
SWEDEN	608.4	468.8	72.6	67.0	499.4	44.1	64.9
SWITZERLAND	541.6	444.7	5.5	91.3	403.2	2.8	135.6
UNITED KINGDOM	8385.9	6893.3	413.9	1078.5	7455.8	746.9	183.1
TOTALS	20622.8	15982.9	1337.2	3302.6	17718.3	1835.2	1069.2
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	1289.0	210.2	127.8	950.9	623.7	340.7	324.6
AUSTRIA	307.8	285.2	18.6	4.0	288.1	17.7	2.0
DENMARK	304.5	263.3	25.0	16.2	276.4	12.1	16.0
FINLAND	280.9	254.6	16.1	10.2	253.6	12.2	15.1
GREECE	261.4	30.3	112.4	118.7	98.1	124.3	39.0
ICELAND	24.8	24.8	.0	.0	18.5	5.3	1.0
IRELAND, REPUBLIC OF	214.4	52.7	113.6	48.0	68.9	89.0	56.4
NEW ZEALAND	251.9	25.8	11.7	214.3	141.5	26.9	83.4
NORWAY	371.3	261.4	8.9	101.0	285.0	28.2	58.0
PORTUGAL	241.9	132.9	85.7	23.2	170.3	53.2	18.4
SOUTH AFRICA	738.8	636.0	53.6	49.1	616.2	100.8	21.8
SPAIN	706.8	340.3	114.5	251.9	437.5	135.3	134.0
TURKEY	448.9	144.3	275.2	29.3	243.0	178.4	27.5
OTHER	12.5	5.3	6.6	.6	6.0	6.4	.1
TOTALS	5455.6	2667.6	970.0	1817.9	3527.7	1130.8	797.4
EASTERN EUROPE							
BULGARIA	9.5	5.1	.0	4.4	9.5	.0	.0
CZECHOSLOVAKIA	10.0	10.0	.0	.0	1.0	9.0	.0
GERMAN DEMOCRATIC REPUBLIC	41.2	32.3	.0	8.9	23.2	17.6	.3
HUNGARY	146.4	37.5	108.9	.0	87.0	35.4	24.0
POLAND	87.1	40.4	42.7	4.0	13.2	55.7	18.1
ROMANIA	13.9	3.2	10.7	.0	4.4	8.0	1.5
U.S.S.R.	11.2	3.0	.0	8.2	6.7	4.5	.0
YUGOSLAVIA	426.4	255.7	148.0	22.5	188.3	200.7	37.3
TOTALS	745.9	387.3	310.4	48.1	333.5	331.0	81.3
OPEC MEMBERS							
ALGERIA	238.4	112.3	52.9	73.1	66.6	69.7	102.1
ECUADOR	297.3	13.4	265.3	18.5	130.7	134.8	31.8
GABON	5.6	.0	5.3	.3	4.6	1.0	.0
INDONESIA	377.2	149.8	92.7	134.7	243.5	84.4	49.2

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
IRAN	2.0	.0	.0	2.0	2.0	.0	.0
IRAQ	78.3	37.6	40.7	.0	51.7	26.5	.1
KUWAIT	97.7	82.2	.0	15.5	91.7	6.0	.0
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	187.8	48.1	129.1	10.5	136.6	36.5	14.6
QATAR	.0	.0	.0	.0	.0	.0	.0
SAUDI ARABIA	94.6	31.1	.6	62.8	85.6	8.0	1.0
UNITED ARAB EMIRATES	82.2	60.7	11.3	10.2	66.2	10.0	6.0
VENEZUELA	1722.6	597.4	537.5	587.5	1512.9	204.1	5.5
TOTALS	3184.3	1133.0	1135.7	915.4	2392.7	581.1	210.4
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	1592.0	472.7	751.3	368.0	1035.9	470.3	85.8
BOLIVIA	37.0	7.8	27.6	1.6	36.9	.1	.0
BRAZIL	4108.9	1799.4	1666.7	642.7	1770.7	1462.7	875.4
CHILE	1091.4	579.4	388.6	123.4	488.3	466.9	136.1
COLOMBIA	364.2	241.3	69.0	53.9	281.7	61.2	21.2
COSTA RICA	124.4	12.8	101.5	10.1	45.3	55.0	24.0
DOMINICAN REPUBLIC	64.0	17.9	42.1	4.0	43.7	20.3	.0
EL SALVADOR	6.8	1.6	2.6	2.6	6.8	.0	.0
GUATEMALA	13.8	5.4	2.0	6.4	8.9	4.8	.1
HONDURAS	30.4	7.0	21.4	2.0	20.0	10.2	.2
JAMAICA	18.1	.1	18.0	.0	10.2	7.9	.0
MEXICO	4832.6	852.2	2192.6	1787.7	1716.5	1923.7	1192.3
NICARAGUA	40.5	.0	35.5	5.0	29.2	6.0	5.3
PARAGUAY	3.7	1.4	1.0	1.3	3.7	.0	.0
PERU	442.1	97.2	281.6	63.3	307.7	104.6	29.8
TRINIDAD AND TOBAGO	22.1	.5	21.6	.0	1.5	1.0	19.6
URUGUAY	123.3	8.7	99.1	15.5	68.6	52.7	1.9
OTHER	24.7	10.3	11.2	3.2	16.8	6.9	1.0
TOTALS	12940.5	4116.0	5733.7	3090.8	5892.8	4654.6	2393.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	96.6	81.4	6.0	9.1	92.6	2.0	2.0
CHINA,TAIWAN	505.8	240.7	94.1	170.9	326.2	127.0	52.5
INDIA	151.1	72.1	28.4	50.6	100.2	21.2	29.7
ISRAEL	269.4	231.0	33.8	4.6	215.1	46.7	7.6
JORDAN	9.5	4.3	4.1	1.1	5.3	4.2	.0
KOREA, SOUTH	2697.5	1766.3	414.1	517.0	2007.2	520.9	169.3
MALAYSIA	265.6	62.9	130.3	72.4	96.9	72.9	95.6
PAKISTAN	1.7	1.7	.0	.0	1.7	.0	.0
PHILIPPINES	1188.6	261.3	707.0	220.2	893.9	195.4	99.2
SYRIA	3.0	.0	.0	3.0	3.0	.0	.0
THAILAND	514.5	364.0	18.7	131.7	421.8	86.5	6.1
OTHER	76.2	49.9	14.2	12.1	52.0	20.5	3.7

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
TOTALS	5778.8	3135.8	1450.0	1193.0	4216.3	1097.5	465.0
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	26.0	.0	.0	26.0	8.0	17.9	.0
EGYPT	189.6	173.0	7.2	9.6	125.0	64.6	.0
GHANA	2.0	.0	2.0	.0	1.0	1.0	.0
IVORY COAST	43.6	.3	38.7	4.6	19.0	20.7	3.9
KENYA	.6	.6	.0	.0	.0	.6	.0
MALAWI	4.2	3.8	.4	.0	4.0	.2	.0
MOROCCO	93.8	58.6	30.0	5.2	76.0	17.8	.0
SENEGAL	2.6	.0	2.6	.0	.4	2.1	.1
SUDAN	.7	.6	.1	.0	.7	.0	.0
TUNISIA	6.6	6.0	.6	.0	3.6	.0	3.0
ZAIRE	2.0	.0	2.0	.0	.0	2.0	.0
ZAMBIA	3.9	.1	1.8	2.0	.4	3.5	.0
OTHER	71.8	19.6	42.2	10.1	46.0	22.9	2.9
TOTALS	446.8	262.0	128.6	56.2	283.6	151.2	9.9
OFFSHORE BANKING CENTERS							
BAHAMAS	993.2	885.2	12.0	96.0	983.7	9.1	.4
BAHRAIN	615.6	605.0	7.0	3.6	610.0	5.6	.0
BERMUDA	48.3	6.2	.0	42.1	43.1	5.2	.0
BRITISH WEST INDIES	1987.2	1958.3	14.2	14.7	1955.5	25.7	6.0
HONG KONG	1707.6	1308.8	6.3	392.6	1597.5	77.0	33.0
LEBANON	7.6	4.0	.0	3.6	7.0	.6	.0
LIBERIA	227.2	1.6	5.6	219.9	61.6	99.6	66.1
MACAO	84.3	68.1	.0	16.2	79.9	.9	3.5
NETHERLANDS ANTILLES	99.4	65.2	.0	34.2	67.3	25.1	7.0
PANAMA	783.1	675.6	24.1	83.4	715.5	34.9	32.7
SINGAPORE	1472.4	1362.1	9.0	101.3	1422.0	42.1	7.3
TOTALS	7826.0	6720.3	78.2	1027.3	7346.6	325.5	154.0
INTERNATIONAL & REGIONAL ORGANIZATIONS							
INTERNATIONAL	112.0	.0	112.0	.0	7.0	17.0	88.0
LATIN AMERICAN REGIONAL	4.0	.0	4.0	.0	.0	1.0	3.0
W. EUROPEAN REGIONAL	166.0	.0	166.0	.0	38.0	65.0	63.0
TOTALS	282.0	.0	282.0	.0	45.0	83.0	154.0
**** GRAND **** ** TOTALS **	57284.0	34205.3	11626.9	11451.7	41756.2	10192.3	5335.4

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	64.4	13.3	51.1	7.7	39.5	96.2
CANADA	753.0	101.1	651.9	40.8	34.8	747.0
FRANCE	965.2	159.9	805.3	4.5	77.5	1038.3
GERMANY, FEDERAL REPUBLIC OF	312.4	73.1	239.3	11.8	174.7	475.4
ITALY	146.7	37.2	109.4	3.0	25.0	168.8
JAPAN	741.1	107.3	633.8	6.0	348.1	1083.2
NETHERLANDS	157.7	35.6	122.0	55.8	28.3	130.2
SWEDEN	181.2	2.1	179.1	.1	17.0	198.1
SWITZERLAND	226.2	128.0	98.2	7.9	38.0	256.3
UNITED KINGDOM	1404.4	265.3	1139.0	282.7	229.0	1350.7
TOTALS	4952.8	923.4	4029.4	420.4	1012.2	5544.6
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	830.5	274.4	556.0	9.0	23.6	845.1
AUSTRIA	4.5	.8	3.7	.1	13.0	17.4
DENMARK	23.2	5.1	18.1	.0	23.0	46.2
FINLAND	28.8	26.8	2.0	.0	12.6	41.5
GREECE	41.5	5.8	35.7	.0	2.9	44.4
ICELAND	6.0	.0	6.0	.0	.0	6.0
IRELAND, REPUBLIC OF	55.5	23.6	31.9	7.8	.0	47.7
NEW ZEALAND	168.1	32.6	135.5	.0	5.3	173.4
NORWAY	57.3	4.4	52.8	.1	8.1	65.3
PORTUGAL	97.5	3.8	93.7	70.2	.0	27.3
SOUTH AFRICA	53.2	7.6	45.6	42.1	5.3	16.4
SPAIN	81.1	42.7	38.4	7.0	.0	74.2
TURKEY	65.7	60.6	5.1	15.7	.0	50.0
OTHER	3.3	3.3	.0	.2	1.0	4.1
TOTALS	1516.5	491.8	1024.7	152.2	95.0	1459.3
EASTERN EUROPE						
BULGARIA	.0	.0	.0	.0	.0	.0
CZECHOSLOVAKIA	.0	.0	.0	.0	.0	.0
GERMAN DEMOCRATIC REPUBLIC	23.0	1.0	22.0	.0	5.0	28.0
HUNGARY	.0	.0	.0	.0	.0	.0
POLAND	10.2	9.8	.4	6.6	.0	3.6
ROMANIA	13.2	6.2	7.0	.0	.0	13.2
U.S.S.R.	.0	.0	.0	.0	.0	.0
YUGOSLAVIA	60.9	8.0	52.9	.0	.0	60.9
TOTALS	107.4	25.0	82.3	6.6	5.0	105.8
OPEC MEMBERS						
ALGERIA	24.9	3.9	21.0	.0	.0	24.9
ECUADOR	26.3	15.9	10.4	1.2	.0	25.1
GABON	1.1	.0	1.1	.0	.0	1.1
INDONESIA	148.5	26.4	122.0	16.0	29.7	162.2
IRAN	.0	.0	.0	.0	.0	.0
IRAQ	19.3	3.4	15.9	1.7	.0	17.6

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985

(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
KUWAIT	34.2	29.2	5.0	.0	.0	34.2
LIBYA	1.9	1.9	.0	.0	.0	1.9
NIGERIA	45.5	20.8	24.7	11.0	.0	34.5
QATAR	.0	.0	.0	.0	1.0	1.0
SAUDI ARABIA	94.2	37.9	56.2	2.9	.0	91.2
UNITED ARAB EMIRATES	17.6	15.6	2.0	.2	1.5	18.9
VENEZUELA	49.4	45.6	3.8	6.5	.0	42.9
TOTALS	463.2	200.9	262.3	39.5	32.2	455.8
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	195.0	45.6	149.4	11.2	1.2	185.0
BOLIVIA	2.0	2.0	.0	1.5	.0	.5
BRAZIL	177.9	75.1	102.8	88.6	1.4	90.7
CHILE	61.2	35.1	26.1	5.0	.0	56.2
COLOMBIA	54.5	38.4	16.1	1.9	.2	52.8
COSTA RICA	13.4	1.6	11.8	8.2	.0	5.2
DOMINICAN REPUBLIC	7.0	7.0	.0	6.4	.0	.6
EL SALVADOR	2.6	2.6	.0	2.4	.0	.2
GUATEMALA	3.4	3.4	.0	2.4	.0	1.0
HONDURAS	15.2	15.2	.0	15.2	.0	.0
JAMAICA	4.5	4.5	.0	.0	.0	4.5
MEXICO	241.4	182.5	58.9	77.2	.0	164.1
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	1.8	1.8	.0	1.3	.0	.5
PERU	51.6	14.5	37.1	14.8	.0	36.8
TRINIDAD AND TOBAGO	.0	.0	.0	.0	.0	.0
URUGUAY	3.8	3.1	.7	.5	.0	3.3
OTHER	6.8	6.3	.5	3.2	.0	3.6
TOTALS	842.5	438.9	403.6	239.9	2.8	605.3
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	46.0	1.0	45.0	4.0	16.1	58.1
CHINA,TAIWAN	66.8	56.2	10.6	.0	20.3	87.1
INDIA	38.0	24.6	13.4	.0	5.1	43.1
ISRAEL	3.6	3.6	.0	.0	.2	3.8
JORDAN	1.1	1.1	.0	.2	.6	1.5
KOREA, SOUTH	232.0	127.3	104.6	.0	36.3	268.3
MALAYSIA	18.7	.9	17.8	.0	.0	18.7
PAKISTAN	3.0	3.0	.0	2.0	.0	1.0
PHILIPPINES	110.9	32.1	78.8	57.8	1.9	55.0
SYRIA	4.1	4.1	.0	.0	.0	4.1
THAILAND	128.4	74.6	53.8	.2	.2	128.4
OTHER	20.9	14.4	6.5	5.2	2.0	17.7
TOTALS	673.7	343.1	330.5	69.4	82.7	687.1

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	14.6	2.2	12.4	10.7	.0	3.9
EGYPT	57.6	54.6	3.0	6.0	.2	51.8
GHANA	.3	.3	.0	.0	.7	1.0
IVORY COAST	3.2	1.2	2.0	.1	.0	3.1
KENYA	.5	.5	.0	.1	.0	.4
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	.0	.0	.0	.0	.0	.0
SENEGAL	.0	.0	.0	.0	.0	.0
SUDAN	.3	.3	.0	.3	.0	.0
TUNISIA	1.5	.5	1.0	.0	.0	1.5
ZAIRE	.6	.6	.0	.6	.0	.0
ZAMBIA	2.4	2.4	.0	.0	.0	2.4
OTHER	8.5	7.5	1.0	3.2	.0	5.3
TOTALS	89.5	70.1	19.4	21.0	.9	69.4
OFFSHORE BANKING CENTERS						
BAHAMAS	5.0	5.0	.0	.8	4.3	8.5
BAHRAIN	2.0	2.0	.0	1.3	.0	.7
BERMUDA	347.8	266.8	81.0	90.9	11.8	268.6
BRITISH WEST INDIES	8.0	7.5	.5	1.2	.0	6.8
HONG KONG	236.5	190.6	45.8	43.8	11.9	204.5
LEBANON	9.2	9.2	.0	1.3	.6	8.5
LIBERIA	22.4	9.4	13.0	14.2	.0	8.2
MACAO	9.6	1.0	8.6	.6	.0	9.0
NETHERLANDS ANTILLES	30.7	2.2	28.5	10.5	.2	20.4
PANAMA	55.3	46.7	8.6	8.1	.1	47.3
SINGAPORE	66.1	40.8	25.3	22.2	1.1	45.0
TOTALS	792.9	581.5	211.4	195.2	30.0	627.7
INTERNATIONAL & REGIONAL ORGANIZATIONS						
INTERNATIONAL	.0	.0	.0	.0	1.5	1.5
LATIN AMERICAN REGIONAL	.0	.0	.0	.0	9.1	9.1
W. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
TOTALS	.0	.0	.0	.0	10.6	10.6
**** GRAND **** ** TOTALS **	9438.9	3075.1	6363.8	1144.5	1271.5	9565.9

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
GABON	7.4	.0	.0	7.4	.0	.0	7.4
INDONESIA	119.7	.0	10.5	109.1	25.0	11.0	145.1
IRAN	.1	.0	.0	.1	.0	.0	.1
IRAQ	48.0	43.0	.0	5.0	.0	.0	5.0
KUWAIT	83.4	.0	1.0	82.4	46.0	.0	128.4
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	124.6	2.1	26.6	95.9	.0	.0	95.9
QATAR	1.0	.0	.0	1.0	.0	.0	1.0
SAUDI ARABIA	75.9	.0	13.6	62.4	15.0	4.3	81.7
UNITED ARAB EMIRATES	37.3	17.5	.0	19.8	29.0	.0	48.9
VENEZUELA	1248.1	5.1	66.2	1176.8	15.3	4.2	1196.3
TOTALS	2270.2	69.5	144.3	2056.3	130.4	25.6	2212.4
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	922.4	4.2	39.1	879.0	24.2	3.0	906.3
BOLIVIA	27.9	.3	1.5	26.1	.0	.0	26.1
BRAZIL	3282.7	55.5	131.1	3096.0	290.7	23.6	3410.4
CHILE	1322.0	29.7	40.1	1252.0	1.1	7.4	1260.6
COLOMBIA	339.5	10.7	6.5	322.3	9.0	.4	331.7
COSTA RICA	96.5	.6	11.2	84.7	.0	.0	84.7
DOMINICAN REPUBLIC	70.4	1.0	8.7	60.6	.0	.0	60.6
EL SALVADOR	56.7	19.7	8.7	28.3	.0	.5	28.8
GUATEMALA	68.4	23.3	24.9	20.1	.0	.1	20.2
HONDURAS	31.4	7.5	3.6	20.2	.0	.0	20.2
JAMAICA	28.3	.0	11.8	16.5	.0	.0	16.5
MEXICO	6168.6	188.0	485.4	5495.1	358.3	70.7	5924.2
NICARAGUA	9.9	.0	.0	9.9	.0	.0	9.9
PARAGUAY	22.9	.0	.2	22.7	.0	.0	22.7
PERU	332.8	8.6	19.3	304.8	.3	.2	305.4
TRINIDAD AND TOBAGO	7.5	.0	.0	7.5	.0	.0	7.5
URUGUAY	86.3	1.0	8.5	76.7	.0	2.6	79.4
OTHER	52.9	44.0	.2	8.7	3.0	.3	12.0
TOTALS	12927.9	394.3	801.4	11732.1	686.6	109.2	12528.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA, MAINLAND	52.7	.0	.0	52.7	51.5	.1	104.4
CHINA, TAIWAN	377.4	59.0	.1	318.3	103.3	32.5	454.1
INDIA	28.0	.0	.0	28.0	129.4	1.6	159.0
ISRAEL	345.6	.0	15.6	330.0	11.5	271.0	612.5
JORDAN	32.5	5.0	.0	27.5	39.0	2.0	68.6
KOREA, SOUTH	1442.9	69.4	13.9	1359.6	395.6	136.1	1891.4
MALAYSIA	107.9	1.0	.3	106.6	32.1	3.0	141.7
PAKISTAN	2.8	.0	.5	2.2	.0	.0	2.2
PHILIPPINES	474.5	18.9	22.0	433.5	17.5	7.3	458.3

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985

TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS

(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1572.3	781.8	6.5	783.9	379.1	35.5	1198.5
CANADA	2446.2	143.5	24.3	2278.2	2472.4	111.2	4861.9
FRANCE	2046.8	439.9	.2	1606.6	2061.5	55.5	3723.7
GERMANY, FEDERAL REPUBLIC OF	527.8	118.2	7.9	401.7	1481.5	168.8	2052.1
ITALY	1375.6	88.3	5.1	1282.1	1381.2	28.8	2692.2
JAPAN	2118.5	117.4	1.8	1999.3	12078.0	535.6	14613.0
NETHERLANDS	485.6	105.4	10.7	369.5	837.5	91.1	1298.2
SWEDEN	1377.1	113.3	.0	1263.8	123.5	36.5	1423.9
SWITZERLAND	437.0	30.6	4.0	402.4	622.3	40.4	1065.2
UNITED KINGDOM	12523.1	8126.6	45.2	4351.2	1829.6	248.2	6429.1
TOTALS	24910.5	10065.4	105.9	14739.2	23267.0	1351.8	39358.1
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	642.4	21.3	31.4	589.7	1082.2	40.0	1712.0
AUSTRIA	300.8	10.0	.0	290.8	169.0	27.4	487.2
DENMARK	250.6	12.0	2.0	236.6	254.3	22.5	513.4
FINLAND	534.0	68.8	.4	464.8	61.1	7.2	533.2
GREECE	147.7	.0	1.0	146.7	5.0	5.0	156.7
ICELAND	16.4	.0	1.1	15.3	5.0	.9	20.4
IRELAND, REPUBLIC OF	139.0	.0	.0	139.0	125.6	6.4	271.1
NEW ZEALAND	142.2	1.1	.2	140.8	101.4	8.1	250.4
NORWAY	389.3	7.0	46.1	336.2	22.5	19.0	377.7
PORTUGAL	237.8	68.5	.3	168.9	129.8	.0	298.8
SOUTH AFRICA	288.5	7.0	35.1	246.4	19.0	17.0	282.4
SPAIN	644.1	60.0	6.0	578.0	296.7	10.5	885.3
TURKEY	216.4	.0	50.6	165.8	3.0	.0	168.8
OTHER	48.8	24.0	4.4	20.4	.0	1.3	21.7
TOTALS	3998.7	279.9	178.7	3540.0	2275.1	164.5	5979.7
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	3.0	.0	.0	3.0	.0	.0	3.0
CZECHOSLOVAKIA	20.1	.0	.0	20.1	.0	.0	20.1
GERMAN DEMOCRATIC REPUBLIC	55.9	.0	1.0	54.9	111.5	.4	166.9
HUNGARY	109.2	5.4	6.3	97.5	.0	1.0	98.5
POLAND	97.6	.8	.0	96.8	8.9	.0	105.8
ROMANIA	15.6	.0	.0	15.6	.0	.0	15.6
U.S.S.R.	2.2	.0	.0	2.2	.0	.0	2.2
YUGOSLAVIA	428.3	17.1	41.0	370.1	.0	8.8	378.9
TOTALS	732.2	23.3	48.3	660.5	120.5	10.2	791.2
OPEC MEMBERS							
ALGERIA	43.3	.0	.0	43.3	.0	1.0	44.3
ECUADOR	481.1	1.8	26.4	452.9	.0	5.1	458.0

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
SYRIA	12.7	.0	.0	12.7	.0	.0	12.7
THAILAND	149.4	6.2	.5	142.7	68.0	.6	211.3
OTHER	101.2	10.3	2.7	88.2	30.9	.3	119.5
TOTALS	3128.2	169.8	55.6	2902.8	878.9	454.6	4236.3
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	26.3	.0	1.0	25.3	.0	.0	25.3
EGYPT	92.2	47.0	2.6	42.6	7.0	.0	49.6
GHANA	2.1	.0	2.1	.0	.0	.0	.0
IVORY COAST	65.2	.0	3.1	62.1	.0	.0	62.1
KENYA	1.0	.0	1.0	.0	.0	.0	.0
MALAWI	2.2	.0	.0	2.2	.0	.0	2.2
MOROCCO	162.7	44.0	.0	118.7	.0	.0	118.7
SENEGAL	2.5	.0	.0	2.5	.0	.0	2.5
SUDAN	5.0	.0	.3	4.7	.0	.0	4.7
TUNISIA	5.0	.0	.0	5.0	.0	.0	5.0
ZAIRE	.6	.0	.5	.1	.0	.0	.1
ZAMBIA	2.4	.0	2.0	.4	.0	.0	.4
OTHER	50.2	7.0	8.7	33.7	.0	.7	34.4
TOTALS	615.7	98.0	21.5	295.3	7.0	.8	303.2
OFFSHORE BANKING CENTERS							
BAHAMAS	3763.3	3646.0	29.2	87.2	15.0	3.5	105.7
BAHRAIN	139.6	60.6	.0	79.0	58.1	.0	137.9
BERMUDA	60.0	3.0	1.2	55.8	.3	6.9	62.7
BRITISH WEST INDIES	6496.2	6379.2	30.0	86.9	34.0	8.0	129.7
HONG KONG	895.6	546.4	34.5	314.6	92.1	3.1	409.7
LEBANON	10.1	.0	.0	10.1	2.5	.0	12.6
LIBERIA	178.0	.0	143.0	35.0	.0	4.9	40.0
MACAU	1.5	1.5	.0	.0	.0	.0	.0
NETHERLANDS ANTILLES	187.6	59.6	77.1	51.0	.0	14.1	65.1
PANAMA	529.6	211.0	162.0	156.6	5.0	8.0	169.6
SINGAPORE	1188.7	1149.1	2.5	36.9	108.6	.0	145.5
TOTALS	11451.1	10058.3	479.7	913.1	316.1	60.4	1278.7
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
ASIAN REGIONAL	1.0	.0	.0	1.0	.0	.0	1.0
INTERNATIONAL	86.7	.0	5.0	81.7	.0	5.0	86.7
LATIN AMERICAN REGIONAL	9.1	.0	.0	9.1	.0	.0	9.1
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	32.0	.0	.0	32.0	3.6	.0	35.6
TOTALS	126.8	.0	5.0	123.8	3.6	5.0	132.4
Grand Totals	59961.7	21159.4	1838.0	36963.4	27685.5	2171.3	66820.3

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1572.3	1460.7	82.9	28.6	1474.1	48.8	49.6
CANADA	2446.2	2042.3	146.2	257.6	2016.0	183.2	247.0
FRANCE	2046.8	1832.2	119.0	95.6	1693.8	223.3	129.7
GERMANY, FEDERAL REPUBLIC OF	527.8	388.7	61.4	77.7	353.4	152.6	21.8
ITALY	1375.6	927.1	290.7	157.7	880.8	324.8	169.9
JAPAN	2118.5	1820.4	7.4	290.7	1784.5	246.4	87.5
NETHERLANDS	485.6	407.6	.0	78.0	386.2	36.9	62.5
SWEDEN	1377.1	1119.2	178.0	79.8	1204.8	30.3	142.0
SWITZERLAND	437.0	348.7	11.1	77.1	391.0	7.1	38.9
UNITED KINGDOM	12523.1	11733.0	193.2	596.0	11733.6	580.4	209.0
TOTALS	24910.5	22081.1	1090.1	1739.2	21918.7	1833.8	1157.9
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	642.4	229.9	28.6	383.8	462.2	64.9	115.3
AUSTRIA	300.8	262.5	20.1	18.1	239.1	31.7	30.0
DENMARK	250.6	181.2	27.7	41.6	193.9	32.9	23.6
FINLAND	534.0	462.5	39.0	32.5	468.7	46.3	19.0
GREECE	147.7	8.3	76.0	63.3	56.2	50.6	40.8
ICELAND	16.4	9.4	4.8	2.2	8.5	6.6	1.3
IRELAND, REPUBLIC OF	139.0	42.3	92.7	4.0	61.9	32.9	44.2
NEW ZEALAND	142.2	25.1	28.9	88.1	76.7	38.2	27.2
NORWAY	389.3	289.9	2.7	96.7	308.5	56.9	23.9
PORTUGAL	237.8	92.2	127.8	17.8	106.4	112.9	18.6
SOUTH AFRICA	288.5	150.3	41.7	96.4	229.8	55.0	3.7
SPAIN	644.1	220.3	146.9	276.8	277.6	274.8	91.6
TURKEY	216.4	35.5	176.3	4.5	79.3	130.5	6.5
OTHER	48.8	27.5	4.5	16.8	34.4	7.0	7.4
TOTALS	3998.7	2037.5	818.1	1143.0	2603.7	941.8	453.1
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	3.0	.0	3.0	.0	3.0	.0	.0
CZECHOSLOVAKIA	20.1	2.0	17.1	1.0	12.6	7.4	.0
GERMAN DEMOCRATIC REPUBLIC	55.9	29.7	24.2	2.0	53.3	2.6	.0
HUNGARY	109.2	33.2	73.5	2.4	58.6	39.9	10.6
POLAND	97.6	22.7	68.9	6.0	40.1	40.3	17.0
ROMANIA	15.6	3.9	11.7	.0	1.6	14.0	.0
U.S.S.R.	2.2	.2	2.0	.0	2.1	.1	.0
YUGOSLAVIA	428.3	188.1	182.1	58.1	148.6	230.2	49.4
TOTALS	732.2	279.9	382.7	69.5	320.2	334.8	77.1
OPEC MEMBERS							
ALGERIA	43.3	11.9	30.0	1.4	10.3	21.7	11.2
ECUADOR	481.1	55.0	378.1	47.9	171.3	247.6	62.1
GABON	7.4	.0	7.4	.0	6.1	1.1	.1

TOTAL ADJUSTED CLAIMS ON FOREIGN BORROWERS OF 24 LARGE U.S. BANK LENDERS
(Dollars in Billions)

Organizations	Total Adjusted Claims 1/
9 Largest	$187,540.5
Next 15	63,572.8
Total	$251,113.3

As of 9-30-85

1/ Claims are adjusted to reflect guarantees by parties in other countries, including the United States.

Source: Federal Reserve Board

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OOPEC MEMBERS							
INDONESIA	119.7	13.0	53.3	53.4	51.8	41.5	26.2
IRAN	.1	.0	.0	.1	.1	.0	.0
IRAQ	48.0	48.0	.0	.0	38.0	10.0	.0
KUWAIT	83.4	62.7	.0	20.6	74.2	9.2	.0
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	124.6	9.7	105.7	9.2	60.5	60.0	4.1
QATAR	1.0	.0	.0	1.0	.0	.0	1.0
SAUDI ARABIA	75.9	12.7	3.4	59.7	66.4	9.5	.0
UNITED ARAB EMIRATES	37.3	28.3	.0	9.0	34.1	.2	3.0
VENEZUELA	1248.1	324.3	457.4	466.3	1024.5	181.3	42.1
TOTALS	2270.2	565.8	1035.5	668.8	1537.6	582.4	150.0
NNON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	922.4	257.8	486.8	177.7	559.2	321.3	41.8
BOLIVIA	27.9	5.9	8.1	13.8	18.0	6.9	3.0
BRAZIL	3282.7	1465.3	1393.8	423.5	1289.6	1284.9	708.1
CHILE	1322.0	779.8	391.0	151.0	376.0	697.4	248.5
COLOMBIA	339.5	108.0	135.0	96.4	189.2	116.7	33.5
COSTA RICA	96.5	6.9	77.7	11.8	43.5	40.5	12.5
DOMINICAN REPUBLIC	70.4	1.9	40.7	27.7	44.3	16.3	9.7
EL SALVADOR	56.7	45.5	9.0	2.0	33.1	23.5	.0
GUATEMALA	68.4	26.9	32.5	9.0	39.5	28.7	.2
HONDURAS	31.4	13.6	9.2	8.5	23.1	7.2	1.0
JAMAICA	28.3	.5	25.7	2.1	16.4	11.9	.0
MEXICO	6168.6	1075.0	3037.4	2056.1	1895.8	2205.5	2067.3
NICARAGUA	9.9	.0	9.9	.0	6.2	.9	2.8
PARAGUAY	22.9	4.9	12.3	5.6	17.3	5.6	.0
PERU	332.8	57.9	238.0	36.8	216.7	90.5	25.4
TRINIDAD AND TOBAGO	7.5	.0	7.5	.0	1.0	6.2	.2
URUGUAY	86.3	9.0	48.0	29.2	43.8	36.1	6.3
OTHER	52.9	44.0	8.0	.9	51.9	1.0	.0
TOTALS	12927.9	3903.4	5971.3	3053.1	4865.3	4901.8	3160.7
NNON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	52.7	36.6	9.0	7.1	39.6	7.6	5.4
CHINA,TAIWAN	377.4	202.1	74.4	100.8	274.8	63.1	39.4
INDIA	28.0	14.8	6.1	7.1	17.1	7.9	2.9
ISRAEL	345.6	136.0	157.5	52.1	154.9	159.8	30.8
JORDAN	32.5	32.5	.0	.0	32.5	.0	.0
KOREA, SOUTH	1442.9	1042.7	276.3	123.9	939.6	396.5	106.7
MALAYSIA	107.9	23.5	60.1	24.3	17.6	62.2	28.0
PAKISTAN	2.8	1.0	1.2	.5	2.1	.7	.0
PHILIPPINES	474.5	150.9	244.4	79.1	275.4	160.2	38.8
SYRIA	12.7	9.0	3.7	.0	12.7	.0	.0
THAILAND	149.4	120.4	3.5	25.4	136.2	10.5	2.5

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	101.2	53.7	21.4	26.1	58.5	30.4	12.3
TOTALS	3128.2	1823.5	858.1	446.6	1961.6	899.3	267.2
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.3	.8	4.0	19.5	3.6	20.6	.0
EGYPT	92.2	80.6	4.5	7.1	64.6	27.5	.0
GHANA	2.1	.0	2.1	.0	.4	1.7	.0
IVORY COAST	65.2	.5	55.2	9.5	16.8	40.5	7.9
KENYA	1.0	.0	.0	1.0	1.0	.0	.0
MALAWI	2.2	.0	2.2	.0	1.0	1.1	.0
MOROCO	162.7	.119.0	37.7	6.0	80.4	80.3	2.0
SENEGAL	2.5	.0	2.5	.0	.0	2.4	.0
SUDAN	5.0	.0	2.7	2.3	4.2	.3	.5
TUNISIA	5.0	5.0	.0	.0	2.2	2.8	.0
ZAIRE	.6	.0	.6	.0	.3	.3	.0
ZAMBIA	2.4	.0	.3	2.1	.8	1.6	.0
OTHER	50.2	9.3	31.4	9.4	21.6	22.0	6.5
TOTALS	415.7	215.2	143.5	56.9	197.4	201.3	16.9
OFFSHORE BANKING CENTERS							
BAHAMAS	3763.3	3721.9	8.8	32.4	3708.0	25.1	30.1
BAHRAIN	139.6	139.6	.0	.0	139.6	.0	.0
BERMUDA	60.8	37.3	.0	23.5	42.9	14.9	3.0
BRITISH WEST INDIES	4496.2	4452.6	26.5	17.0	4447.7	37.1	11.4
HONG KONG	895.4	754.5	.4	140.4	861.6	23.2	10.6
LEBANON	10.1	1.8	1.3	7.0	10.1	.0	.0
LIBERIA	178.0	2.8	5.7	169.5	79.1	80.6	18.3
MACAO	1.5	1.5	.0	.0	1.5	.0	.0
NETHERLANDS ANTILLES	187.6	76.0	10.6	101.0	94.4	59.3	33.8
PANAMA	529.4	228.7	104.0	196.7	344.4	132.8	52.2
SINGAPORE	1188.7	1177.2	2.5	9.0	1178.7	10.0	.0
TOTALS	11451.1	10594.4	159.9	696.7	10908.4	383.2	159.4
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
ASIAN REGIONAL	1.0	.0	1.0	.0	1.0	.0	.0
INTERNATIONAL	84.7	.0	84.7	.0	4.0	59.5	21.2
LATIN AMERICAN REGIONAL	9.1	.0	9.1	.0	.0	.0	9.1
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	32.0	.0	32.0	.0	13.0	16.0	3.0
TOTALS	126.8	.0	126.8	.0	18.0	75.5	33.3
**** GRAND **** ** TOTALS **	59961.7	41501.2	10586.3	7874.2	44331.3	10154.3	5476.0

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTME FOR GUARANTEE
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	174.9	84.6	90.3	11.0	7.0	170.9
CANADA	275.8	77.9	197.9	7.9	67.2	335.1
FRANCE	377.7	105.6	272.1	.8	58.0	434.9
GERMANY, FEDERAL REPUBLIC OF	149.8	76.0	73.8	.0	40.7	190.5
ITALY	176.4	5.1	171.3	.0	6.2	182.7
JAPAN	702.0	116.3	585.7	4.3	327.3	1025.0
NETHERLANDS	95.1	33.1	62.0	.0	28.6	123.7
SWEDEN	266.7	.1	266.6	.0	7.0	273.7
SWITZERLAND	71.3	29.9	41.3	3.1	8.8	77.1
UNITED KINGDOM	600.6	278.2	322.4	3.6	235.4	832.3
TOTALS	2890.8	807.3	2083.4	30.8	786.5	3646.4
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	183.5	92.6	90.9	1.1	49.3	231.7
AUSTRIA	29.3	7.3	22.0	.0	10.3	39.6
DENMARK	89.8	20.8	69.0	.0	15.0	104.8
FINLAND	53.1	2.1	51.0	.0	.0	53.1
GREECE	28.3	.0	28.3	.0	.0	28.3
ICELAND	.0	.0	.0	.0	.0	.0
IRELAND, REPUBLIC OF	3.1	1.1	2.0	.7	.0	2.6
NEW ZEALAND	34.8	3.1	31.7	.0	3.4	38.2
NORWAY	23.3	10.5	12.8	4.0	1.1	20.6
PORTUGAL	22.0	8.2	13.8	.0	.0	22.0
SOUTH AFRICA	11.4	7.3	4.1	4.1	1.2	8.5
SPAIN	128.7	30.2	98.5	2.2	3.0	129.5
TURKEY	23.7	6.6	17.1	10.6	.0	13.1
OTHER	.5	.5	.0	.0	.0	.5
TOTALS	632.0	190.8	441.2	22.7	83.3	692.6
EASTERN EUROPE						
ALBANIA	.0	.0	.0	.0	.0	.0
BULGARIA	10.0	10.0	.0	.0	.0	10.0
CZECHOSLOVAKIA	.0	.0	.0	.0	.0	.0
GERMAN DEMOCRATIC REPUBLIC	3.9	.3	3.6	.0	.0	3.9
HUNGARY	38.1	15.0	23.1	16.9	.0	21.2
POLAND	2.0	.0	2.0	.0	.0	2.0
ROMANIA	.1	.1	.0	.0	.0	.1
U.S.S.R.	10.0	.0	10.0	.0	.0	10.0
YUGOSLAVIA	17.5	3.0	14.5	8.3	.5	9.7
TOTALS	81.6	28.4	53.2	25.2	.5	56.9
OPEC MEMBERS						
ALGERIA	6.7	.0	6.7	.0	.0	6.7
ECUADOR	75.8	42.4	33.3	12.0	1.4	65.1
GABON	3.0	1.0	2.0	.0	.0	3.0
INDONESIA	86.6	49.3	37.3	43.0	12.7	56.3
IRAN	.0	.0	.0	.0	.0	.0

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
IRAQ	30.0	20.0	10.0	10.0	.0	20.0
KUWAIT	28.4	10.3	18.0	2.0	.1	26.5
LIBYA	5.0	1.0	4.0	.0	.0	5.0
NIGERIA	18.6	12.3	6.2	6.2	.0	12.3
QATAR	1.1	.1	1.0	.0	.0	1.1
SAUDI ARABIA	51.3	19.9	31.4	1.5	4.2	54.0
UNITED ARAB EMIRATES	.8	.8	.0	.0	.3	1.1
VENEZUELA	40.8	38.8	2.0	13.0	.3	28.1
TOTALS	348.5	196.4	152.0	87.0	19.0	279.6
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	52.2	24.2	27.9	5.5	.0	46.7
BOLIVIA	15.8	10.8	5.0	.0	.0	15.8
BRAZIL	141.1	41.6	99.5	36.7	.0	104.4
CHILE	49.6	27.9	21.7	5.0	.1	44.7
COLOMBIA	25.3	22.6	2.7	.0	.0	25.3
COSTA RICA	33.9	10.3	23.6	30.0	.0	3.9
DOMINICAN REPUBLIC	2.2	2.2	.0	.0	.0	2.1
EL SALVADOR	81.8	72.4	9.4	36.1	.0	45.7
GUATEMALA	34.8	26.7	8.1	14.8	.0	20.0
HONDURAS	26.8	26.8	.0	13.3	.0	13.4
JAMAICA	6.7	5.5	1.2	2.1	.0	4.6
MEXICO	193.8	146.0	47.8	28.2	4.2	169.8
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	.0	.0	.0	.0	.0	.0
PERU	28.4	25.0	3.3	7.6	.0	20.7
TRINIDAD AND TOBAGO	9.0	.0	9.0	9.0	.0	.0
URUGUAY	.7	.4	.3	.1	.0	.6
OTHER	2.6	2.6	.0	1.6	.0	1.0
TOTALS	705.4	445.6	259.8	190.3	4.3	519.3
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	1.5	.4	1.1	.0	.2	1.7
CHINA,TAIWAN	103.6	51.0	52.5	.0	.0	103.6
INDIA	19.6	17.4	2.2	.0	2.0	21.6
ISRAEL	38.2	32.0	6.2	11.1	10.0	37.1
JORDAN	8.5	1.5	7.0	.0	.0	8.5
KOREA, SOUTH	182.4	74.2	108.1	7.0	10.9	186.3
MALAYSIA	5.0	.0	5.0	.0	.0	5.0
PAKISTAN	3.1	1.1	2.0	.0	.0	3.1
PHILIPPINES	104.1	67.4	36.6	1.0	2.0	105.1
SYRIA	2.4	2.4	.0	.0	.0	2.4
THAILAND	39.5	10.0	29.5	.0	2.3	41.8
OTHER	7.4	7.1	.3	.3	.0	7.1
TOTALS	515.7	265.0	250.7	19.4	27.4	523.7

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985 PAGE 3
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	1.3	1.3	.0	.0	.0	1.3
EGYPT	64.9	63.1	1.8	6.0	.0	58.9
GHANA	.0	.0	.0	.0	.0	.0
IVORY COAST	6.5	3.4	3.1	.0	.0	6.5
KENYA	.0	.0	.0	.0	.0	.0
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	40.0	39.0	1.0	.0	.0	40.0
SENEGAL	.0	.0	.0	.0	.0	.0
SUDAN	23.0	23.0	.0	.0	.0	23.0
TUNISIA	.0	.0	.0	.0	.0	.0
ZAIRE	.0	.0	.0	.0	.0	.0
ZAMBIA	.0	.0	.0	.0	.0	.0
OTHER	151.0	134.8	16.2	59.0	.2	92.2
TOTALS	286.9	264.7	22.1	65.0	.2	222.1
OFFSHORE BANKING CENTERS						
BAHAMAS	30.0	23.7	6.3	17.7	.0	12.3
BAHRAIN	17.0	17.0	.0	.0	.0	17.0
BERMUDA	276.9	268.6	8.3	147.2	5.4	135.1
BRITISH WEST INDIES	7.2	6.7	.5	4.1	1.0	4.0
HONG KONG	118.2	96.9	21.3	32.3	1.6	87.5
LEBANON	14.9	5.0	9.9	.0	.2	15.2
LIBERIA	5.4	2.1	3.3	2.7	.0	2.7
MACAO	.0	.0	.0	.0	.0	.0
NETHERLANDS ANTILLES	50.0	24.9	25.1	35.9	3.0	17.1
PANAMA	75.6	66.6	9.0	34.4	1.0	42.2
SINGAPORE	65.1	50.1	15.0	49.0	.0	16.1
TOTALS	660.8	562.0	98.7	323.3	12.3	349.7
INTERNATIONAL & REGIONAL ORGANIZATIONS						
AFRICAN REGIONAL	1.1	.0	1.1	.0	.0	1.1
ASIAN REGIONAL	.0	.0	.0	.0	.0	.0
INTERNATIONAL	.0	.0	.0	.0	.0	.0
LATIN AMERICAN REGIONAL	2.1	2.1	.0	.0	1.6	3.8
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
TOTALS	3.2	2.1	1.1	.0	1.7	5.0
**** GRAND **** ** TOTALS **	6125.2	2762.5	3362.7	764.9	935.3	6295.7

1/ All data are on a fully consolidated basis and cover 197 U.S. banking organizations.

2/ The data in the table cover only cross-border and non-local currency lending. These result from a U.S. bank's office in one country lending to residents of another country or lending in a currency other than that of the borrower's country.

3/ In addition to the lending covered in the tables, banks reported $95.8 billion in local currency loans and other claims and $68.0 billion in local currency liabilities held by their foreign offices on residents of the country in which the office was located (e.g., Deutsche Mark loans to German residents booked at the German branch of the reporting U.S. bank). These types of local currency assets are excluded from the data in the tables.

4/ These columns show the amount owed to U.S. banks by borrowers residing in one country that is guaranteed by residents of another country. The guarantor can be a government entity, a bank, or a private non-bank entity. Amounts owed U.S. banks by a branch in the reported country, where the head office of the borrowing bank is outside the reported country, are treated as being guaranteed and are included in column 2.

5/ Includes amounts borrowed by the foreign branches of banks headquartered in the reported country. Also, includes guarantees and similar instruments issued by the reported country's banks that cover repayment of borrowing by non-residents.

6/ Amount guaranteed by non-bank entities in the reported country that cover amounts owed U.S. banks by borrowers located outside of the reported country (e.g., a guarantee issued by a German company to cover a U.S. bank borrowing by its Belgian subsidiary would be reported in this column on the German country line).

The total capital of the reporting banks, including equity, subordinated debentures, and reserves for loan losses is: all reporting banks $101.9 billion; nine money center banks $40.7 billion; fifteen other large banks $20.0 billion; and all other reporting banks $41.2 billion.

The total assets of the reporting banks are: all reporting banks, $1,470 billion; nine money center banks, $616 billion; fifteen other large banks $279 billion; and all other reporting banks $575 billion.

DEBT RESCHEDULINGS SINCE 1980

ARGENTINA

August 1985	- Rescheduling of $9.9 billion in 1982-85 public sector maturities. (Terms: 10 years with 3 years grace)
	- Rescheduling of $3.5 billion in 1984-85 private sector maturities through the issuance of government promissory notes. Notes are used to either repay the private debt, resulting in a public sector obligation or guarantee the private sector obligation. (Terms: 10 years with 3 years grace)
November 1982	- Rescheduling of $5 billion in 1982-83 private sector maturities through the issuance of government promissory notes or bonds. Notes and bonds were used in the same manner as above. (Terms: 5 years with 3 years grace)

BRAZIL

March 1986	- Agreement in principle reached to reschedule $6.1 billion in 1985 public and private sector maturities. $9.7 billion in 1986 maturities will be extended for one year and included in an anticipated multi-year rescheduling in early 1987. The signing of this refinancing is expected by mid-year. (Terms: 7 years with 5 years grace)
January 1984	- Rescheduling of $5 billion in 1984 public and private sector maturities. (Terms: 9 years with 5 years grace)
February 1983	- Rescheduling of $4.9 billion in 1983 public and private sector maturities. (Terms: 8 years with 2 1/2 years grace)

CHILE

November 1985	- Rescheduling of $6 billion 1985-87 public and private sector maturities. (Terms: 12 years with 6 years grace)
July 1983	- Rescheduling of $3.4 billion in 1983-84 public and private sector maturities. (Terms: 8 years with 4 years grace)

MEXICO

March/August 1985 - Rescheduling of $43.7 billion in 1985-90 public sector maturities. Includes $23.6 billion in 1987-90 public sector maturities previously rescheduled in August 1983. (Terms: 14 years with 1 year grace)

August 1983 - Rescheduling of $23.6 billion in August 1982 to December 1984 public sector maturities. (Terms: 8 years with 4 years grace)

May 1983 - Under an institution established by the Government (FICORCA), approximately $12 billion of a total $18 billion in private sector debt has been registered. FICORCA provides foreign exchange at preferential rates to facilitate debt servicing in the private sector, assuming the borrower reaches a rescheduling agreement with its creditor banks. (Terms: 6-8 years with 3-4 years grace)

NIGERIA

July/September 1983 - Rescheduling of $1.8 billion in short-term trade transactions. (Terms: 3 years with 6 months grace)

PHILIPPINES

May 1985 - Rescheduling of $5.8 billion in October 1983 to December 1986 public and private sector maturities. (Terms: 10 years with 5 years grace)

VENEZUELA

February 1986 - Rescheduling of $20 billion in 1983-88 public sector maturities. (Terms: 12 1/2 years with no grace)

In Process - Since early 1984, approximately $7 billion in private sector debt has been registered with RECADI, qualifying for preferential exchange to service debt. This is conditioned on a rescheduling agreement between the borrower and creditor bank. (Terms: 7 years with 2 years grace)

Source: IMF data, summarized and updated by OCC.

STATISTICAL INFORMATION REQUESTED BY

THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

SUPERVISION, REGULATION AND INSURANCE

OF THE HOUSE COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS

Submitted by:

Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Reserve Board

April 4, 1986

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR INSURED COMMERCIAL BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF INSURED COMMERCIAL BANK AGRICULTURAL LOANS
ALABAMA	$372.8	0.8%
ALASKA	11.8	0.0
ARIZONA	569.3	1.2
ARKANSAS	691.6	1.5
CALIFORNIA	4,117.7	8.7
COLORADO	925.7	1.9
CONNECTICUT	26.4	0.1
DELAWARE	53.3	0.1
D.C.	13.3	0.0
FLORIDA	561.9	1.2
GEORGIA	611.6	1.3
HAWAII	51.3	0.1
IDAHO	694.0	1.5
ILLINOIS	3,046.4	6.4
INDIANA	1,640.1	3.5
IOWA	3,855.5	8.1
KANSAS	2,552.4	5.4
KENTUCKY	1,113.5	2.3
LOUISIANA	542.7	1.1
MAINE	28.6	0.1
MARYLAND	219.2	0.5
MASSACHUSETTS	55.9	0.1
MICHIGAN	789.8	1.7
MINNESOTA	2,440.2	5.1
MISSISSIPPI	635.6	1.3
MISSOURI	1,919.2	4.0
MONTANA	754.0	1.6
NEBRASKA	2,862.4	6.0
NEVADA	16.4	0.0
NEW HAMPSHIRE	5.4	0.0
NEW JERSEY	33.9	0.1
NEW MEXICO	271.1	0.6
NEW YORK	1,082.9	2.3
NORTH CAROLINA	445.6	0.9
NORTH DAKOTA	1,021.8	2.2
OHIO	1,054.5	2.2
OKLAHOMA	1,604.4	3.4
OREGON	392.6	0.8
PENNSYLVANIA	699.6	1.5
RHODE ISLAND	7.0	0.0
SOUTH CAROLINA	129.3	0.3
SOUTH DAKOTA	1,341.8	2.8
TENNESSEE	666.7	1.4
TEXAS	3,969.6	8.4
UTAH	135.3	0.3
VERMONT	57.6	0.1
VIRGINIA	374.0	0.8
WASHINGTON	961.6	2.0
WEST VIRGINIA	84.7	0.2
WISCONSIN	1,680.7	3.5
WYOMING	281.0	0.6
TOTAL	$47,473.5	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR NATIONAL BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF NATIONAL BANK AGRICULTURAL LOANS
ALABAMA	$93.3	0.4%
ALASKA	5.8	0.0
ARIZONA	493.2	2.3
ARKANSAS	277.3	1.3
CALIFORNIA	3,469.1	15.9
COLORADO	583.3	2.7
CONNECTICUT	20.3	0.1
DELAWARE	1.8	0.0
D.C.	13.3	0.1
FLORIDA	284.0	1.3
GEORGIA	142.5	0.7
HAWAII	0.0	0.0
IDAHO	419.4	1.9
ILLINOIS	1,361.4	6.3
INDIANA	463.3	2.1
IOWA	814.4	3.7
KANSAS	892.8	4.1
KENTUCKY	325.6	1.5
LOUISIANA	104.4	0.5
MAINE	14.5	0.1
MARYLAND	150.6	0.7
MASSACHUSETTS	38.1	0.2
MICHIGAN	202.9	0.9
MINNESOTA	783.3	3.6
MISSISSIPPI	157.4	0.7
MISSOURI	457.8	2.1
MONTANA	377.7	1.7
NEBRASKA	1,334.2	6.1
NEVADA	13.2	0.1
NEW HAMPSHIRE	1.8	0.0
NEW JERSEY	23.4	0.1
NEW MEXICO	161.2	0.7
NEW YORK	617.7	2.8
NORTH CAROLINA	241.2	1.1
NORTH DAKOTA	345.7	1.6
OHIO	545.1	2.5
OKLAHOMA	874.9	4.0
OREGON	269.5	1.2
PENNSYLVANIA	354.3	1.6
RHODE ISLAND	6.9	0.0
SOUTH CAROLINA	59.9	0.3
SOUTH DAKOTA	590.0	2.7
TENNESSEE	195.3	0.9
TEXAS	2,499.3	11.5
UTAH	92.5	0.4
VERMONT	20.4	0.1
VIRGINIA	197.6	0.9
WASHINGTON	796.7	3.7
WEST VIRGINIA	32.8	0.2
WISCONSIN	359.8	1.7
WYOMING	174.8	0.8
TOTAL	$21,755.9	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(A)

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR STATE MEMBER BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF STATE MEMBER BANK AGRICULTURAL LOANS
ALABAMA	$45.3	1.2%
ALASKA	00.0	0.0
ARIZONA	3.3	0.1
ARKANSAS	11.3	0.3
CALIFORNIA	236.4	6.3
COLORADO	137.9	3.7
CONNECTICUT	00.0	0.0
DELAWARE	15.0	0.4
D.C.	00.0	0.0
FLORIDA	60.2	1.6
GEORGIA	23.6	0.6
HAWAII	00.0	0.0
IDAHO	58.8	1.6
ILLINOIS	218.9	5.8
INDIANA	208.0	5.5
IOWA	308.8	8.2
KANSAS	127.0	3.4
KENTUCKY	133.7	3.6
LOUISIANA	33.2	0.9
MAINE	2.3	0.1
MARYLAND	2.2	0.1
MASSACHUSETTS	16.4	0.4
MICHIGAN	234.7	6.2
MINNESOTA	90.3	2.4
MISSISSIPPI	4.4	0.1
MISSOURI	126.1	3.4
MONTANA	164.7	4.4
NEBRASKA	41.9	1.1
NEVADA	00.0	0.0
NEW HAMPSHIRE	0.2	0.0
NEW JERSEY	1.5	0.0
NEW MEXICO	8.1	0.2
NEW YORK	405.6	10.8
NORTH CAROLINA	00.0	0.0
NORTH DAKOTA	17.4	0.5
OHIO	262.1	7.0
OKLAHOMA	59.6	1.6
OREGON	11.7	0.3
PENNSYLVANIA	13.1	0.3
RHODE ISLAND	00.0	0.0
SOUTH CAROLINA	3.6	0.1
SOUTH DAKOTA	225.6	6.0
TENNESSEE	35.7	0.9
TEXAS	142.5	3.8
UTAH	12.5	0.3
VERMONT	00.0	0.0
VIRGINIA	111.5	3.0
WASHINGTON	5.1	0.1
WEST VIRGINIA	19.8	0.5
WISCONSIN	67.8	1.8
WYOMING	53.4	1.4
TOTAL	$3,760.4	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and rual estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(A)

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR STATE NON-MEMBER BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF STATE NON-MEMBER BANK AGRICULTURAL LOANS
ALABAMA	$234.2	1.1%
ALASKA	5.9	0.0
ARIZONA	72.7	0.3
ARKANSAS	403.0	1.8
CALIFORNIA	412.3	1.9
COLORADO	204.5	0.9
CONNECTICUT	6.1	0.0
DELAWARE	36.5	0.2
D.C.	00.0	0.0
FLORIDA	217.8	1.0
GEORGIA	445.5	2.0
HAWAII	51.2	0.2
IDAHO	215.8	1.0
ILLINOIS	1,466.1	6.7
INDIANA	968.8	4.4
IOWA	2,732.3	12.4
KANSAS	1,532.6	7.0
KENTUCKY	654.2	3.0
LOUISIANA	405.2	1.8
MAINE	11.8	0.1
MARYLAND	66.4	0.3
MASSACHUSETTS	1.3	0.0
MICHIGAN	352.1	1.6
MINNESOTA	1,566.6	7.1
MISSISSIPPI	473.8	2.2
MISSOURI	1,335.4	6.1
MONTANA	211.6	1.0
NEBRASKA	1,486.2	6.8
NEVADA	3.2	0.0
NEW HAMPSHIRE	3.3	0.0
NEW JERSEY	9.0	0.0
NEW MEXICO	101.8	0.5
NEW YORK	59.6	0.3
NORTH CAROLINA	204.4	0.9
NORTH DAKOTA	658.7	3.0
OHIO	247.3	1.1
OKLAHOMA	669.9	3.1
OREGON	111.4	0.5
PENNSYLVANIA	332.2	1.5
RHODE ISLAND	0.1	0.0
SOUTH CAROLINA	65.8	0.3
SOUTH DAKOTA	526.7	2.4
TENNESSEE	435.8	2.0
TEXAS	1,327.8	6.0
UTAH	30.3	0.1
VERMONT	37.1	0.2
VIRGINIA	65.0	0.3
WASHINGTON	159.8	0.7
WEST VIRGINIA	32.0	0.1
WISCONSIN	1,253.2	5.7
WYOMING	52.8	0.2
TOTAL	$21,957.2	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTURAL BANKS BY STATE

DATA FOR INSURED COMMERCIAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF INSURED COMMERCIAL AGRICULTURAL BANKS
ALABAMA	19	0.5%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	45	1.2
CALIFORNIA	1	0.0
COLORADO	69	1.8
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	6	0.2
GEORGIA	40	1.1
HAWAII	-	-
IDAHO	11	0.3
ILLINOIS	391	10.5
INDIANA	77	2.1
IOWA	505	13.5
KANSAS	403	10.8
KENTUCKY	75	2.0
LOUISIANA	24	0.6
MAINE	-	-
MARYLAND	3	0.1
MASSACHUSETTS	-	-
MICHIGAN	14	0.4
MINNESOTA	377	10.1
MISSISSIPPI	24	0.6
MISSOURI	260	7.0
MONTANA	78	2.1
NEBRASKA	378	10.1
NEVADA	1	0.0
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	6	0.2
NEW YORK	4	0.1
NORTH CAROLINA	2	0.1
NORTH DAKOTA	139	3.7
OHIO	48	1.3
OKLAHOMA	156	4.2
OREGON	5	0.1
PENNSYLVANIA	2	0.1
RHODE ISLAND	-	-
SOUTH CAROLINA	2	0.1
SOUTH DAKOTA	121	3.2
TENNESSEE	25	0.7
TEXAS	208	5.6
UTAH	2	0.1
VERMONT	-	-
VIRGINIA	2	0.1
WASHINGTON	16	0.4
WEST VIRGINIA	-	-
WISCONSIN	172	4.6
WYOMING	21	0.6
TOTAL	3,731	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTURAL BANKS BY STATE

DATA FOR NATIONAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF NATIONAL AGRICULTURAL BANKS
ALABAMA	1	0.1%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	6	0.7
CALIFORNIA	-	-
COLORADO	36	4.4
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	0.1
GEORGIA	-	-
HAWAII	-	-
IDAHO	1	0.1
ILLINOIS	108	13.2
INDIANA	15	1.8
IOWA	71	8.6
KANSAS	90	11.0
KENTUCKY	12	1.5
LOUISIANA	2	0.2
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	2	0.2
MINNESOTA	67	8.2
MISSISSIPPI	1	0.1
MISSOURI	30	3.7
MONTANA	30	3.7
NEBRASKA	98	11.9
NEVADA	1	0.1
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	4	0.5
NEW YORK	2	0.2
NORTH CAROLINA	-	-
NORTH DAKOTA	24	2.9
OHIO	11	1.3
OKLAHOMA	59	7.2
OREGON	-	-
PENNSYLVANIA	2	0.2
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	17	2.1
TENNESSEE	1	0.1
TEXAS	97	11.8
UTAH	-	-
VERMONT	-	-
VIRGINIA	-	-
WASHINGTON	3	0.4
WEST VIRGINIA	-	-
WISCONSIN	20	2.4
WYOMING	9	1.1
TOTAL	821	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(B)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR STATE MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE MEMBER AGRICULTURAL BANKS
ALABAMA	-	-
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	-	-
CALIFORNIA	-	-
COLORADO	7	3.2
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	0.5
GEORGIA	-	-
HAWAII	-	-
IDAHO	3	1.4
ILLINOIS	24	11.0
INDIANA	14	6.4
IOWA	26	11.9
KANSAS	13	5.9
KENTUCKY	1	0.5
LOUISIANA	1	0.5
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	4	1.8
MINNESOTA	13	5.9
MISSISSIPPI	-	-
MISSOURI	11	5.0
MONTANA	23	10.5
NEBRASKA	6	2.7
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	-	-
NEW YORK	-	-
NORTH CAROLINA	-	-
NORTH DAKOTA	3	1.4
OHIO	14	6.4
OKLAHOMA	8	3.7
OREGON	2	0.9
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	20	9.1
TENNESSEE	-	-
TEXAS	12	5.5
UTAH	-	-
VERMONT	-	-
VIRGINIA	1	0.5
WASHINGTON	1	0.5
WEST VIRGINIA	-	-
WISCONSIN	5	2.3
WYOMING	6	2.7
TOTAL	219	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR STATE NON-MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE NON-MEMBER AGRICULTURAL BANKS
ALABAMA	18	0.7%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	39	1.4
CALIFORNIA	1	0.0
COLORADO	26	1.0
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	4	0.1
GEORGIA	40	1.5
HAWAII	-	-
IDAHO	7	0.3
ILLINOIS	259	9.6
INDIANA	48	1.8
IOWA	408	15.2
KANSAS	300	11.1
KENTUCKY	62	2.3
LOUISIANA	21	0.8
MAINE	-	-
MARYLAND	3	0.1
MASSACHUSETTS	-	-
MICHIGAN	8	0.3
MINNESOTA	297	11.0
MISSISSIPPI	23	0.9
MISSOURI	219	8.1
MONTANA	25	0.9
NEBRASKA	274	10.2
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	2	0.1
NEW YORK	2	0.1
NORTH CAROLINA	2	0.1
NORTH DAKOTA	112	4.2
OHIO	23	0.9
OKLAHOMA	88	3.3
OREGON	3	0.1
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	2	0.1
SOUTH DAKOTA	84	3.1
TENNESSEE	24	0.9
TEXAS	99	3.7
UTAH	2	0.1
VERMONT	-	-
VIRGINIA	1	0.0
WASHINGTON	12	0.4
WEST VIRGINIA	-	-
WISCONSIN	147	5.5
WYOMING	6	0.2
TOTAL	2,691	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

BEC (4/86)

EXPOSURES OF THE TOP 24 U.S. INTERNATIONAL LENDERS TO SELECTED LDCs (1)
(as of 9/30/85 - Millions of $)

	Argentina	Brazil	Chile	Mexico	Nigeria	Philippines	Venezuela
Citicorp.		3,339		2,822		1,386	
BankAmerica Corp.		2,674		2,730			1,458
Chase Manhattan Corp.	825	2,595		1,673			1,271
Manufacturers Hanover Corp.	1,345	1,969	688	1,672			1,015
Chemical NY Corp.		1,448		1,458			720
J.P. Morgan Co., Inc.	808	1,959		1,160			
Bankers Trust N.Y. Corp.		858		1,271			
First Chicago Corp.		816		885			
Continental Illinois Corp.	364	466		561			320
First Interstate Bankcorp		530		741			
Mellon National Corp.		497		461			
Irving Bank Corp.	232	384		363			462
Security Pacific Corp.		572		520			
Wells Fargo Co.		580		518			268
Marine Midland Banks		657		362			301
Bank of New York		272		256			
RepublicBank		248		270			
Texas Commerce Bancshares				301			
Bank of Boston	327	214					
InterFirst Corp.				249			
Republic N.Y. Corp.	152	181		262			
NBD Bancorp				184			
Crocker National Corp.							
First City Bancorp				163			

(1) As reported on the publicly available "Country Exposure Information Report" (FFIEC 009a) for 9/30/85. Banks report their exposure to individual countries on a confidential basis and, except for those exposures which exceed the lesser of 1 percent of total assets or 20 percent of primary capital, they are not subject to public disclosure. The absence of an amount in any column indicates that the bank's outstandings to that country (if any) do not meet the threshold for disclosure.

Reported amounts are claims outstanding (excluding local currency claims), after adjustment for third country guarantees.

Source: Federal Reserve Board and
Comptroller of the Currency

AGRICULTURE: ITEM I(C)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR INSURED COMMERICAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF INSURED COMMERICAL BANKS IN STATE
ALABAMA	19	7.9%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	45	17.4
CALIFORNIA	1	0.2
COLORADO	69	15.1
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	6	1.5
GEORGIA	40	10.8
HAWAII	-	-
IDAHO	11	42.3
ILLINOIS	391	31.7
INDIANA	77	20.8
IOWA	505	81.2
KANSAS	403	64.7
KENTUCKY	75	22.5
LOUISIANA	24	8.0
MAINE	-	-
MARYLAND	3	3.3
MASSACHUSETTS	-	-
MICHIGAN	14	3.9
MINNESOTA	377	51.4
MISSISSIPPI	24	16.4
MISSOURI	260	38.6
MONTANA	78	46.2
NEBRASKA	378	83.4
NEVADA	1	6.3
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	6	6.3
NEW YORK	4	2.1
NORTH CAROLINA	2	3.2
NORTH DAKOTA	139	78.5
OHIO	48	15.1
OKLAHOMA	155	29.1
OREGON	5	7.5
PENNSYLVANIA	2	0.6
RHODE ISLAND	-	-
SOUTH CAROLINA	2	2.7
SOUTH DAKOTA	121	88.3
TENNESSEE	25	8.7
TEXAS	208	10.7
UTAH	2	3.7
VERMONT	-	-
VIRGINIA	2	1.2
WASHINGTON	16	16.3
WEST VIRGINIA	-	-
WISCONSIN	172	30.0
WYOMING	21	18.4
TOTAL	3,731	26.1%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(C)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR NATIONAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF NATIONAL BANKS IN STATE
ALABAMA	1	1.9%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	6	7.3
CALIFORNIA	-	-
COLORADO	36	15.1
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	0.7
GEORGIA	-	-
HAWAII	-	-
IDAHO	1	14.3
ILLINOIS	108	27.1
INDIANA	15	13.6
IOWA	71	64.5
KANSAS	90	53.9
KENTUCKY	12	15.4
LOUISIANA	2	2.8
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	2	1.7
MINNESOTA	67	31.6
MISSISSIPPI	1	3.0
MISSOURI	30	23.8
MONTANA	30	54.5
NEBRASKA	98	81.7
NEVADA	1	16.7
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	4	8.9
NEW YORK	2	1.9
NORTH CAROLINA	-	-
NORTH DAKOTA	24	55.8
OHIO	11	7.6
OKLAHOMA	59	25.5
OREGON	-	-
PENNSYLVANIA	2	1.1
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	17	68.0
TENNESSEE	1	1.7
TEXAS	97	9.2
UTAH	-	-
VERMONT	-	-
VIRGINIA	-	-
WASHINGTON	3	12.5
WEST VIRGINIA	-	-
WISCONSIN	20	16.8
WYOMING	9	15.3
TOTAL	821	16.7%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(C)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR STATE MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE MEMBER BANKS IN STATE
ALABAMA	-	-
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	-	-
CALIFORNIA	-	-
COLORADO	7	10.3
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	1.8
GEORGIA	-	-
HAWAII	-	-
IDAHO	3	100.0
ILLINOIS	24	35.8
INDIANA	14	34.1
IOWA	26	70.3
KANSAS	13	65.0
KENTUCKY	1	14.3
LOUISIANA	1	16.7
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	4	4.9
MINNESOTA	13	38.2
MISSISSIPPI	-	-
MISSOURI	11	29.7
MONTANA	23	56.1
NEBRASKA	6	66.7
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	-	-
NEW YORK	-	-
NORTH CAROLINA	-	-
NORTH DAKOTA	3	75.0
OHIO	14	20.3
OKLAHOMA	8	36.4
OREGON	2	15.4
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	20	80.0
TENNESSEE	-	-
TEXAS	12	17.1
UTAH	-	-
VERMONT	-	-
VIRGINIA	1	1.2
WASHINGTON	1	33.3
WEST VIRGINIA	-	-
WISCONSIN	5	22.7
WYOMING	6	24.0
TOTAL	219	20.5%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

BOC (4/88)

AGRICULTURE: ITEM I(C)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR STATE NON-MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE NON-MEMBER BANKS IN STATE
ALABAMA	18	11.2%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	39	22.7
CALIFORNIA	1	0.4
COLORADO	26	17.4
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	4	2.2
GEORGIA	40	13.2
HAWAII	-	-
IDAHO	7	43.8
ILLINOIS	259	33.8
INDIANA	48	21.8
IOWA	408	85.9
KANSAS	300	68.8
KENTUCKY	62	25.0
LOUISIANA	21	9.4
MAINE	-	-
MARYLAND	3	5.0
MASSACHUSETTS	-	-
MICHIGAN	8	5.0
MINNESOTA	297	60.9
MISSISSIPPI	23	20.9
MISSOURI	219	42.9
MONTANA	25	34.2
NEBRASKA	274	84.6
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	2	4.4
NEW YORK	2	3.9
NORTH CAROLINA	2	4.3
NORTH DAKOTA	112	86.2
OHIO	23	21.9
OKLAHOMA	88	31.4
OREGON	3	6.5
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	2	4.1
SOUTH DAKOTA	84	96.6
TENNESSEE	24	10.9
TEXAS	99	12.3
UTAH	2	6.1
VERMONT	-	-
VIRGINIA	1	2.4
WASHINGTON	12	16.9
WEST VIRGINIA	-	-
WISCONSIN	147	33.9
WYOMING	6	20.0
TOTAL	2,691	32.4%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM II(A)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR INSURED COMMERCIAL BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	4.9%	2.7%
1985 Q3	4.9	3.0
1985 Q2	4.7	3.0
1985 Q1	4.8	3.1
1984 Q4	3.8	3.0
1984 Q3	3.6	3.1
1984 Q2	3.5	3.2
1984 Q1	3.6	3.3
1983 Q4	3.0	3.3
1983 Q3	3.0	3.8
1983 Q2	2.9	3.8
1983 Q1	2.9	3.7
1982 Q4	2.4	3.4

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR NATIONAL BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	5.2%	2.9%
1985 Q3	5.4	3.2
1985 Q2	5.0	3.2
1985 Q1	5.0	3.2
1984 Q4	4.0	3.2
1984 Q3	3.8	3.3
1984 Q2	3.8	3.5
1984 Q1	3.7	3.6
1983 Q4	3.1	3.6
1983 Q3	3.0	4.1
1983 Q2	2.9	4.1
1983 Q1	2.9	4.0
1982 Q4	2.4	3.6

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM II(A)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR STATE MEMBER BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	4.5%	2.6%
1985 Q3	4.6	3.1
1985 Q2	4.5	3.1
1985 Q1	4.3	3.1
1984 Q4	3.4	3.0
1984 Q3	3.3	3.1
1984 Q2	3.2	3.1
1984 Q1	3.4	2.8
1983 Q4	3.1	2.9
1983 Q3	3.1	3.3
1983 Q2	2.9	3.3
1983 Q1	2.9	3.2
1982 Q4	2.7	2.9

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM II(A)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR STATE NON-MEMBER BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	4.8%	2.4%
1985 Q3	4.7	2.5
1985 Q2	4.5	2.4
1985 Q1	4.7	2.5
1984 Q4	3.7	2.4
1984 Q3	3.5	2.5
1984 Q2	3.4	2.5
1984 Q1	3.5	2.7
1983 Q4	2.9	2.7
1983 Q3	3.0	3.1
1983 Q2	2.8	3.1
1983 Q1	3.0	3.2
1982 Q4	2.5	3.0

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

FAILURES BY TYPE OF BANK

	1982	1983	1984	1985	1986*
Agriculture Banks	7	7	25	62	12
Other Commercial Banks	27	38	53	56	12
Savings Banks	8	3	1	2	0
Total	42	48	79	120	24

AGRICULTURAL BANK FAILURES BY CHARTER CLASS

	1982	1983	1984	1985	1986*
National Banks	2	2	5	10	5
State Member Banks	0	0	1	4	1
State Non-member Banks	5	5	19	48	6
Total	7	7	25	62	12

* Failures through March 27, 1986.

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: FDIC.

AGRICULTURE: ITEM II(C)

PROBLEM COMMERCIAL BANKS BY TYPE OF BANK

	Ag Banks	Other Commercial Banks	Total
Dec. 1982	*	*	*
June 1983	106 (22.0)	375 (78.0)	481
Dec. 1983	146 (24.2)	457 (75.8)	603
June 1984	231 (34.3)	440 (65.6)	671
Dec. 1984	288 (36.1)	512 (63.9)	800
June 1985	334 (35.5)	606 (64.5)	940
Dec. 1985	437 (39.8)	661 (60.2)	1,098
Feb. 1986	468 (40.5)	668 (59.5)	1,156

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Problem banks are defined as those rated composite 4 and 5 on the CAMEL rating system.

*Agricultural banks not segregated prior to June 1983.

Numbers in parentheses indicate percent of total problem commercial banks.

Source: FDIC.

AGRICULTURE: ITEM II(D)

PROJECTED FARM-BANK FAILURES AND ASSETS OF FAILED BANKS
UNDER HIGH, MEDIUM, AND LOW LOSS SCENARIOS

	1986		1987		1988	
	Number of Banks	Assets (millions of dollars)	Number of Banks	Assets (millions of dollars)	Number of Banks	Assets (millions of dollars)
High	136	2,975	133	3,119	82	1,867
Medium	72	1,662	73	2,006	35	827
Low	38	813	49	1,423	5	160

Note: The medium loss scenario assumes that farm-loan losses would be equal to about 3 percent of farm-loans annually in 1986-1987, and then drop slightly to 2.5 percent in 1988. The 3 percent loss rate would be roughly equal to that experienced at commercial banks in 1985. The high loss scenario assumes loss rates of 4.5 percent in 1986-87 and 3.5 percent in 1988, while loss rates under the low loss scenario are equal to 2 percent in 1988-87, and 1 percent in 1988.

Source: FDIC.

AGRICULTURE: ITEMS III(A), AND III(C)

PROBLEM AGRICULTURAL BANKS THAT ARE IN ONE-BANK COMMUNITIES

	April 1, 1986
Number of agricultural banks in one-bank communities	2,268
Number of problem banks by charter class:	
National Banks	51
State Member Banks	11
State Non-member Banks	203
Total problem banks	265

Definitions: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

One-bank communities are located outside of Standard Metropolitan Statistical Areas and are determined from Call Report files to have only one bank.

Source: FDIC.

AGRICULTURAL BANK FAILURES IN ONE-BANK COMMUNITIES

	1982	1983	1984	1985	1986*
National Banks	1	1	3	5	1
State Member Banks	0	0	0	2	1
State Nonmember Banks	4	2	15	36	5
Total	5	3	18	43	7

AGRICULTURAL BANK FAILURES IN ONE-BANK TOWNS THAT WERE PAYOFFS

	1982	1983	1984	1985	1986
National Banks	1	1	0	2	0
State Member Banks	0	0	0	0	0
State Nonmember Banks	2	1	0	9	1
Total	3	2	0 2/	11	1

Definitions: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

One-bank communities are located outside of Standard Metropolitan Statistical Areas and are determined from Call Report files to have only one bank.

1/ No deposit payoffs but there were 3 deposit transfers.

*Failures through March 27, 1986.

Source: FDIC.

ENERGY: ITEM I

SNC ENERGY LOANS AND COMMITMENTS 1/
(Dollars in Millions)

	Total $ Energy Loans and Commitments Outstanding	$ Classifications				Capital (Equity + Loss Res.)	Total Class. % of Cap.	Weighted 2/ Total Class. % of Cap.
		S/S	D	Loss	Total			
1977	6,837	280	50	0	330	33,770	1.0	.24
1978	8,705	357	76	48	480	37,264	1.3	.42
1979	10,076	397	47	0	444	40,504	1.1	.25
1980	15,939	243	0	0	243	44,264	0.5	.11
1981	20,515	90	283	0	373	50,289	0.7	.32
1982	38,146	965	195	25	1,185	59,718	2.0	.53
1983	46,293	5,405	423	390	6,218	66,798	9.3	2.52
1984	56,908	4,531	884	741	6,155	72,532	8.5	2.88
1985	48,981	6,962	1,066	410	8,438	86,194	9.8	2.71

1/ This information is derived from the annual interagency program for review and classification of Shared National Credits (SNC). A SNC is defined as any loan or group of loans to a borrower aggregating $20 million or more, either outstanding or committed under a formal lending agreement and (a) shared at its inception by two or more banks; or (b) a portion of which is sold to one or more banks with the purchasing bank assuming its pro-rata share of the credit risk. Therefore, the above data are not meant to represent the full extent of classified energy credits. Energy credits are those with SIC codes 1311, 1321, 1381, 1382, 1389, 2911 or 3533.

2/ The ratios represent classified loans in the Shared National Credit Program weighted on the basis of 20 percent of substandard loans plus 50 percent of doubtful loans plus 100 percent of loss loans to equity capital plus loan loss reserves as reflected in the June 30 Call Reports for 1977 through 1985. All figures are weighted averages.

Source: Federal Reserve Board

SNC ENERGY LOANS AND COMMITMENTS
25 INSTITUTIONS WITH LARGEST SNC ENERGY EXPOSURE
(Dollars in Millions)

	Total Energy Credits	Total Assets	Classified Energy Credits	Energy Credits/ Total Assets (%)	Class. Credits/ Total Energy Credits (%)	Number of Lenders by Asset Size		
						<300	300-1,000	>1,000
1982	$20,442	$280,682	$ 617	7.3	3.0	7	6	12
1983	19,355	193,607	3,476	10.0	18.0	9	3	13
1984	26,757	280,844	3,279	9.5	12.3	7	2	16
1985	14,667	155,523	3,091	9.4	21.1	9	6	10

Note: The above information is derived from the annual interagency program for review and classification of Shared National Credits (SNC). A SNC is defined as any loan or group of loans to a borrower aggregating $20 million or more, either outstanding or committed under a formal lending agreement and (a) shared at its inception by two or more banks; or (b) a portion of which is sold to one or more banks with the purchasing bank assuming its pro-rata share of the credit risk. Therefore, the above data are not meant to represent the full extent of classified energy credits. Energy credits are those with SIC codes of 1311, 1321, 1381, 1382, 1389, 2911 or 3533.

To determine the 25 largest exposures, first, energy credits were divided by total assets for each institution to determine its relative exposure. The resulting ratio was used to rank institutions in order from most exposed to least exposed, and then the institutions with the largest ratios were selected. Only institutions with a ratio of greater than five percent were included. Prior to 1982, fewer than 25 institutions had energy credits greater or equal to five percent of assets.

It was not possible to select a matched sample of 25 institutions for all time periods, so the 25 largest ratios were chosen for each year according to the procedure above. The number of lenders by asset size is shown to indicate the variation in the sample.

Source: Federal Reserve Board.

COUNTRY EXPOSURE LENDING SURVEY

SEPTEMBER 1985

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985 1/
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/3/
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	8196.0	2537.5	144.7	5513.8	973.1	1202.6	7689.6
CANADA	11144.2	443.2	604.8	10096.1	4890.4	588.9	15575.5
FRANCE	11378.6	1282.6	102.5	9993.4	5610.5	881.0	16485.0
GERMANY, FEDERAL REPUBLIC OF	4747.1	278.3	296.7	4172.0	3209.2	800.3	8181.6
ITALY	7100.2	247.8	97.1	6755.2	4006.2	486.0	11247.5
JAPAN	15509.6	225.7	158.9	15125.0	32523.1	1611.3	49259.4
NETHERLANDS	2569.9	261.7	360.7	1947.5	1527.2	461.1	3935.9
SWEDEN	3348.9	172.3	20.7	3155.9	214.5	203.4	3573.9
SWITZERLAND	3183.3	85.4	316.7	2781.1	1114.0	675.5	4570.7
UNITED KINGDOM	42250.1	21120.0	2299.6	18830.5	3561.2	3815.2	26207.0
TOTALS	109428.4	26654.7	4402.7	78370.9	57629.6	10725.9	146726.4
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	5784.1	45.8	399.3	5339.0	1744.6	486.8	7570.6
AUSTRIA	1598.4	20.3	23.0	1555.1	358.3	125.0	2038.4
DENMARK	2457.1	15.0	89.4	2352.7	522.3	262.4	3137.4
FINLAND	2038.6	70.8	113.4	1854.4	164.4	61.6	2080.5
GREECE	2772.8	41.2	172.0	2559.6	27.4	232.1	2819.1
ICELAND	255.8	1.0	21.1	233.7	7.0	.0	240.8
IRELAND, REPUBLIC OF	1201.2	93.3	37.0	1070.8	392.0	75.4	1538.2
NEW ZEALAND	1036.5	6.5	61.4	968.5	189.1	35.3	1193.0
NORWAY	3523.4	12.0	320.6	3190.8	72.5	437.6	3701.0
PORTUGAL	1432.5	128.7	73.5	1230.3	455.1	21.0	1706.4
SOUTH AFRICA	3441.1	197.6	179.6	3063.9	135.0	116.8	3315.8
SPAIN	4289.9	186.9	364.8	3738.1	698.7	51.5	4488.3
TURKEY	2244.3	8.0	225.9	2010.4	6.5	9.0	2025.9
OTHER	251.6	27.0	84.5	140.1	1.0	14.3	155.4
TOTALS	32327.9	854.3	2165.7	29307.8	4774.4	1929.1	36011.3
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	108.5	.0	.0	108.5	.0	.0	108.5
CZECHOSLOVAKIA	114.5	3.7	3.0	107.8	.0	3.0	110.8
GERMAN DEMOCRATIC REPUBLIC	384.9	.0	2.0	382.9	121.5	10.4	514.8
HUNGARY	720.9	7.4	30.3	683.2	.0	1.0	684.2
POLAND	627.5	11.8	18.1	597.6	8.9	.0	606.6
ROMANIA	206.5	.0	1.0	205.5	.0	2.9	208.4
U.S.S.R.	156.6	4.8	25.2	126.6	15.0	.0	141.6
YUGOSLAVIA	2388.3	102.9	140.0	2145.4	5.0	57.8	2208.2
TOTALS	4708.1	130.6	219.6	4357.8	150.5	75.1	4583.5
OPEC MEMBERS							
ALGERIA	967.4	2.0	48.2	917.2	3.6	40.0	960.8
ECUADOR	2184.8	5.5	221.4	1957.8	.0	5.1	1962.9
GABON	65.7	1.0	14.8	49.9	.0	15.5	65.4

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
INDONESIA	2957.6	8.7	511.6	2437.3	108.7	139.5	2685.5
IRAN	2.1	.0	2.0	.1	.0	.0	.1
IRAQ	663.5	408.1	81.7	173.7	.2	.0	173.9
KUWAIT	846.2	11.4	35.0	799.8	243.2	22.0	1065.0
LIBYA	36.0	.0	11.0	25.0	.0	.0	25.0
NIGERIA	1431.4	91.0	313.5	1026.8	.0	30.0	1056.8
QATAR	13.8	.0	10.2	3.6	19.0	.0	22.6
SAUDI ARABIA	1742.1	28.0	215.0	1499.0	168.5	208.5	1876.0
UNITED ARAB EMIRATES	615.9	81.1	60.8	474.0	100.3	8.7	583.1
VENEZUELA	10221.0	22.1	430.2	9768.6	138.8	35.4	9942.9
TOTALS	21748.0	658.9	1955.6	19133.4	782.4	504.6	20420.5
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	8193.9	8.2	583.6	7602.1	854.7	36.8	8493.7
BOLIVIA	144.9	4.2	7.0	133.7	2.0	.0	135.7
BRAZIL	22903.6	469.8	945.2	21488.5	2228.4	214.9	23931.9
CHILE	6196.8	223.6	189.7	5783.3	15.1	68.4	5866.9
COLOMBIA	2615.4	115.7	53.5	2446.1	107.1	5.4	2558.7
COSTA RICA	446.7	2.6	26.5	417.5	.0	4.0	421.5
DOMINICAN REPUBLIC	484.0	20.2	42.3	421.4	.0	.0	421.4
EL SALVADOR	110.0	37.3	15.5	57.2	.0	.5	57.7
GUATEMALA	134.1	23.3	32.6	78.1	.0	.1	78.2
HONDURAS	136.7	9.1	27.1	100.4	.0	.0	100.4
JAMAICA	262.7	.4	102.2	160.1	.0	.0	160.1
MEXICO	25186.7	386.6	1417.1	23382.9	1207.4	193.1	24783.5
NICARAGUA	134.6	.0	1.0	133.5	.0	.0	133.5
PARAGUAY	190.4	.0	4.8	185.6	.0	2.0	187.6
PERU	1862.0	35.4	177.3	1649.1	1.3	4.2	1654.7
TRINIDAD AND TOBAGO	148.6	.0	22.6	126.0	.0	2.2	128.2
URUGUAY	923.4	2.4	30.7	890.3	.0	2.6	892.9
OTHER	119.5	51.4	18.3	49.8	3.0	.3	53.1
TOTALS	70194.7	1390.4	3697.6	65106.6	4419.1	534.8	70060.6
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA, MAINLAND	491.4	.0	.0	491.4	551.6	73.7	1116.8
CHINA, TAIWAN	2119.2	120.0	69.3	1929.9	183.6	170.0	2283.5
INDIA	883.2	11.0	16.7	855.5	368.1	86.7	1310.4
ISRAEL	1674.1	124.0	73.2	1476.9	86.9	335.0	1898.8
JORDAN	227.2	8.1	13.7	205.4	122.3	2.0	329.8
KOREA, SOUTH	9893.4	844.7	211.0	8837.6	838.9	753.8	10430.5
MALAYSIA	1477.0	4.5	60.0	1412.5	171.3	68.4	1652.2
PAKISTAN	176.7	1.1	1.1	174.4	19.0	21.8	215.2
PHILIPPINES	5475.3	156.5	268.2	5050.5	127.6	47.3	5225.4
SYRIA	28.2	.0	2.0	26.2	.0	1.0	27.2
THAILAND	1892.3	49.7	64.6	1778.0	311.7	10.3	2100.1

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	929.1	72.7	185.2	671.1	36.9	4.3	712.4
TOTALS	25267.7	1392.4	965.2	22910.0	2818.2	1574.5	27302.8
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	225.3	.0	91.3	134.0	.0	5.0	139.0
EGYPT	1025.8	216.1	135.6	674.1	44.4	4.6	723.1
GHANA	11.1	.0	9.1	2.0	.0	1.0	3.0
IVORY COAST	422.8	1.0	9.6	412.2	.0	.0	412.2
KENYA	82.4	.0	6.4	76.0	.0	.0	76.0
MALAWI	45.6	.0	1.0	44.6	3.0	.0	47.6
MOROCO	945.3	119.5	3.2	822.6	10.0	9.0	841.6
SENEGAL	63.4	.0	.0	63.4	.0	.2	63.6
SUDAN	71.6	.4	4.4	66.8	1.0	.0	67.8
TUNISIA	228.5	3.5	63.0	162.0	.0	.0	162.0
ZAIRE	25.3	.0	15.0	10.3	.0	.0	10.3
ZAMBIA	89.0	.0	28.2	60.8	.0	.0	60.8
OTHER	684.7	13.9	245.0	425.8	2.0	5.7	433.6
TOTALS	3921.3	354.4	611.8	2955.0	60.4	25.6	3041.1
OFFSHORE BANKING CENTERS							
BAHAMAS	6258.3	5375.5	319.2	563.5	28.0	49.4	641.0
BAHRAIN	1501.6	789.4	79.6	632.5	212.9	16.9	862.4
BERMUDA	592.6	3.8	297.2	291.6	1.0	54.9	347.5
BRITISH WEST INDIES	8588.1	8174.6	138.7	274.7	34.8	13.0	322.5
HONG KONG	6716.3	3207.4	987.7	2521.1	196.7	530.5	3248.4
LEBANON	88.0	.8	24.4	62.8	24.4	5.3	92.5
LIBERIA	1574.9	1.0	1447.5	126.4	.0	4.9	131.3
MACAO	239.8	152.2	1.5	86.1	.0	5.8	91.9
NETHERLANDS ANTILLES	1039.7	192.7	589.4	257.5	5.0	47.5	310.0
PANAMA	3076.8	959.3	1138.9	978.5	29.0	57.6	1065.1
SINGAPORE	6127.7	4537.4	349.2	1241.0	169.1	216.0	1626.2
TOTALS	35804.4	23394.5	5373.6	7036.2	701.0	1002.0	8739.3
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.7	.0	.0	.7	.0	.0	.7
ASIAN REGIONAL	2.0	.0	.0	2.0	.0	1.0	3.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	489.7	2.0	13.0	474.7	4.0	15.0	493.7
LATIN AMERICAN REGIONAL	17.1	.0	1.0	16.1	10.0	11.0	37.1
MIDDLE EASTERN REGIONAL	99.0	.0	.0	99.0	.0	.0	99.0
W. EUROPEAN REGIONAL	368.8	.0	.0	368.8	5.6	40.0	414.4
TOTALS	977.3	2.0	14.0	961.3	19.6	67.0	1047.9
Grand Totals	304378.0	54832.4	19406.1	230139.4	71355.4	16438.8	317933.7

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	8196.0	6792.9	581.8	821.2	7442.9	437.5	315.7
CANADA	11144.2	5548.0	426.2	5169.8	7319.0	1527.5	2297.7
FRANCE	11378.6	8482.1	1619.6	1276.8	9090.9	1301.8	985.8
GERMANY, FEDERAL REPUBLIC OF	4747.1	1650.9	787.3	2308.8	3046.8	1319.5	380.7
ITALY	7100.2	3986.7	2055.7	1057.7	4401.7	1746.3	952.2
JAPAN	15509.6	9132.5	182.6	6194.6	12481.6	2477.5	550.4
NETHERLANDS	2569.9	1010.5	215.7	1343.7	1871.9	287.9	410.0
SWEDEN	3348.9	2143.7	467.4	737.7	2612.3	383.9	352.7
SWITZERLAND	3183.3	1481.8	155.9	1545.5	2568.8	262.2	352.3
UNITED KINGDOM	42250.1	30817.2	1269.7	10163.1	36438.7	3702.1	2109.2
TOTALS	109428.6	71046.7	7762.3	30619.2	87275.0	13446.3	8707.0
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	5784.1	691.0	480.0	4613.0	2619.5	1581.7	1582.9
AUSTRIA	1598.4	1128.1	362.5	107.7	1280.5	201.4	116.5
DENMARK	2457.1	759.0	232.8	1465.2	1551.2	620.2	285.5
FINLAND	2038.6	1045.8	381.2	611.5	1417.6	470.4	150.6
GREECE	2772.8	161.7	864.7	1746.4	961.2	1203.5	608.0
ICELAND	255.8	77.0	98.2	80.6	120.8	81.0	54.0
IRELAND, REPUBLIC OF	1201.2	291.0	664.3	245.8	542.0	319.3	339.7
NEW ZEALAND	1036.5	70.2	186.1	780.0	405.6	280.0	350.8
NORWAY	3523.4	1005.1	148.0	2370.2	1719.6	991.8	812.1
PORTUGAL	1432.5	557.9	778.6	95.9	745.7	559.1	127.6
SOUTH AFRICA	3441.1	2231.3	180.3	1029.4	2810.2	574.5	56.4
SPAIN	4289.9	1762.3	1035.7	1491.8	2191.5	1411.5	686.8
TURKEY	2244.3	551.5	1473.8	218.8	1188.8	918.5	137.0
OTHER	251.6	44.8	32.1	174.7	131.3	99.5	20.8
TOTALS	32327.9	10377.3	6918.8	15031.7	17687.8	9312.9	5327.1
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	108.5	14.1	90.0	4.4	88.5	20.0	.0
CZECHOSLOVAKIA	114.5	71.6	39.1	4.0	73.9	40.5	.0
GERMAN DEMOCRATIC REPUBLIC	384.9	293.7	72.2	18.9	314.5	69.0	1.3
HUNGARY	720.9	119.7	598.7	2.4	363.6	262.7	94.6
POLAND	627.5	164.1	453.4	10.0	180.3	319.2	127.9
ROMANIA	206.5	10.1	196.4	.0	99.0	102.0	5.5
U.S.S.R.	156.6	20.4	128.0	8.2	63.3	79.3	13.4
YUGOSLAVIA	2388.3	1253.9	910.6	223.7	978.8	1123.0	286.4
TOTALS	4708.1	1947.6	2488.7	271.7	2162.3	2016.5	529.2
OPEC MEMBERS							
ALGERIA	967.6	420.9	421.9	124.5	306.5	325.2	337.7
ECUADOR	2184.6	185.2	1817.7	181.7	1060.4	766.9	357.3
GABON	65.7	.0	53.2	12.5	35.9	22.7	7.0
INDONESIA	2957.6	257.6	828.1	1871.9	1673.7	811.7	472.1

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
IRAN	2.1	.0	.0	2.1	2.1	.0	.0
IRAQ	663.5	511.6	150.9	1.0	383.1	279.3	1.1
KUWAIT	846.2	589.1	29.0	228.0	783.3	62.9	.0
LIBYA	36.0	10.0	15.0	11.0	36.0	.0	.0
NIGERIA	1431.4	331.0	971.6	128.8	946.5	404.8	80.1
QATAR	13.8	.0	.0	13.7	9.8	3.0	1.0
SAUDI ARABIA	1742.1	374.3	29.0	1338.7	1259.4	282.1	200.6
UNITED ARAB EMIRATES	615.9	325.7	162.2	127.9	499.5	94.0	22.4
VENEZUELA	10221.0	2250.1	5053.3	2917.5	8527.1	1347.6	346.1
TOTALS	21748.0	5256.0	9532.2	6959.7	15521,7	4400.6	1825.6
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	8193.9	1562.0	4496.0	2135.7	5212.1	2365.0	616.6
BOLIVIA	144.9	17.7	104.2	22.9	131.9	10.0	3.0
BRAZIL	22903.6	7193.4	11933.8	3776.3	8675.5	8691.3	5536.8
CHILE	6196.8	2657.4	2624.3	915.0	2277.5	2921.2	998.0
COLOMBIA	2615.4	979.7	1017.1	618.5	1487.3	713.1	414.9
COSTA RICA	446.7	21.8	384.0	40.8	149.7	236.5	60.5
DOMINICAN REPUBLIC	484.0	37.2	381.4	65.3	290.3	178.9	14.7
EL SALVADOR	110.0	64.4	34.6	10.8	63.5	45.4	1.0
GUATEMALA	134.1	32.3	58.1	43.7	75.4	54.7	4.0
HONDURAS	136.7	20.6	69.9	46.1	97.0	37.4	2.2
JAMAICA	262.7	.9	257.3	4.5	101.9	123.6	37.2
MEXICO	25186.7	4170.2	13346.2	7670.2	8177.5	10135.4	6873.7
NICARAGUA	134.6	11.4	118.1	5.0	98.6	12.9	23.1
PARAGUAY	190.4	7.3	126.4	56.6	91.2	89.2	10.0
PERU	1862.0	316.0	1280.7	265.1	1226.1	496.8	139.0
TRINIDAD AND TOBAGO	148.6	.5	141.1	7.0	67.5	44.2	36.8
URUGUAY	923.4	36.8	786.9	99.7	343.7	553.4	26.2
OTHER	119.5	62.8	48.5	8.2	96.7	14.8	8.0
TOTALS	70194.7	17193.0	37209.3	15792.2	28664.2	26724.3	14806.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	491.4	280.0	128.0	83.2	418.2	38.5	34.4
CHINA,TAIWAN	2119.2	828.3	625.0	665.7	1323.4	562.8	232.8
INDIA	883.2	202.8	302.4	378.0	421.6	263.6	197.9
ISRAEL	1674.1	1162.0	320.3	191.7	1187.2	416.3	70.4
JORDAN	227.2	95.8	102.3	29.1	156.8	51.8	18.6
KOREA, SOUTH	9893.4	4895.0	2044.2	2954.2	6566.7	2216.9	1109.8
MALAYSIA	1477.0	193.5	720.2	563.2	371.2	714.2	391.5
PAKISTAN	176.7	16.8	101.7	58.1	98.1	78.6	.0
PHILIPPINES	5475.3	870.1	3335.9	1269.2	2804.4	2045.6	625.2
SYRIA	28.2	20.5	3.7	4.0	28.2	.0	.0
THAILAND	1892.3	999.5	170.6	722.0	1497.8	313.8	80.5
OTHER	929.1	238.7	318.2	372.1	335.8	463.1	130.1
TOTALS	25267.7	9803.6	8173.1	7290.9	15210.1	7165.9	2891.6

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	225.3	16.8	76.0	132.5	59.7	153.6	12.0
EGYPT	1025.8	675.6	113.0	237.2	758.4	211.8	55.5
GHANA	11.1	1.0	8.1	2.0	6.4	4.7	.0
IVORY COAST	422.8	15.8	348.2	58.8	147.9	177.0	97.9
KENYA	82.4	2.4	23.3	56.7	62.7	18.7	1.0
MALAWI	45.6	17.6	24.0	4.0	34.8	10.7	.0
MOROCO	945.3	506.5	395.7	43.1	711.9	222.0	11.4
SENEGAL	63.4	2.0	34.2	27.2	38.0	22.6	2.7
SUDAN	71.6	15.4	52.9	3.3	55.2	4.3	12.1
TUNISIA	228.5	74.7	141.8	12.0	140.5	64.8	23.2
ZAIRE	25.3	.0	25.3	.0	17.8	7.5	.0
ZAMBIA	89.0	3.1	77.1	8.8	45.1	19.8	24.0
OTHER	684.7	141.1	372.2	171.4	429.4	188.3	66.9
TOTALS	3921.3	1472.0	1692.2	757.0	2508.4	1106.2	306.7
OFFSHORE BANKING CENTERS							
BAHAMAS	6258.3	5786.8	33.0	438.3	5946.9	234.6	76.7
BAHRAIN	1501.6	1406.5	43.0	52.1	1456.2	38.4	7.0
BERMUDA	592.6	55.5	59.0	478.0	445.4	65.1	82.0
BRITISH WEST INDIES	8588.1	8383.4	67.7	137.0	8416.5	118.6	53.0
HONG KONG	6716.3	4286.4	82.7	2347.2	5694.2	638.0	384.1
LEBANON	88.0	41.6	1.3	45.1	80.6	5.4	2.0
LIBERIA	1574.9	11.4	50.9	1512.6	527.6	704.9	342.4
MACAO	239.8	214.7	7.0	18.1	225.6	7.9	6.3
NETHERLANDS ANTILLES	1039.7	248.4	22.9	768.3	538.3	333.2	168.1
PANAMA	3076.8	1162.4	381.0	1533.3	1962.5	748.2	366.0
SINGAPORE	6127.7	5130.3	113.8	883.5	5683.9	271.7	172.1
TOTALS	35804.4	26727.8	862.5	8213.9	30978.2	3166.3	1659.8
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.7	.0	.7	.0	.7	.0	.0
ASIAN REGIONAL	2.0	.0	2.0	.0	1.0	.0	1.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	489.7	.0	489.7	.0	147.0	128.5	214.2
LATIN AMERICAN REGIONAL	17.1	.0	17.1	.0	1.0	2.0	14.1
MIDDLE EASTERN REGIONAL	99.0	.0	99.0	.0	97.0	.0	2.0
W. EUROPEAN REGIONAL	368.8	.0	368.8	.0	119.4	104.4	145.0
TOTALS	977.3	.0	977.3	.0	366.1	234.9	376.3
**** GRAND **** ** TOTALS **	304378.0	143824.4	75616.8	84936.7	200374.0	67574.2	36429.7

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1983

(IN MILLIONS OF DOLLARS)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF		COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
		LETTERS OF CREDIT	OTHER COMM.			
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	1477.8	258.8	1219.0	189.5	1424.9	2713.2
CANADA	5173.4	683.4	4489.9	152.7	318.6	5339.3
FRANCE	6782.4	1003.7	5778.7	270.3	1027.8	7540.0
GERMANY, FEDERAL REPUBLIC OF	2312.9	1122.0	1190.9	85.4	426.4	2653.9
ITALY	2488.5	247.4	2241.0	54.9	264.6	2698.2
JAPAN	4632.4	1100.3	3532.1	65.5	1403.4	5970.3
NETHERLANDS	1453.5	432.7	1020.7	194.8	263.5	1522.1
SWEDEN	3086.7	409.0	2677.7	44.1	183.8	3226.4
SWITZERLAND	3465.2	2022.0	1443.1	233.4	432.9	3664.7
UNITED KINGDOM	11965.3	2878.1	9087.1	2077.3	3271.9	13159.8
TOTALS	42838.5	10157.9	32680.5	3368.2	9018.1	48488.4
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	4907.3	1687.9	3219.4	236.1	168.4	4839.7
AUSTRIA	623.6	138.4	485.2	6.1	31.3	648.8
DENMARK	1273.8	169.5	1104.3	35.2	125.0	1363.6
FINLAND	570.8	214.0	356.8	33.7	18.3	555.4
GREECE	736.9	195.0	541.8	37.5	44.1	743.5
ICELAND	40.2	4.1	36.1	.1	.0	40.1
IRELAND, REPUBLIC OF	748.5	133.7	614.8	166.6	25.0	606.9
NEW ZEALAND	1134.3	470.6	663.7	316.2	43.0	861.1
NORWAY	1795.7	419.5	1376.2	200.3	118.2	1713.7
PORTUGAL	405.3	183.8	221.5	87.0	2.0	320.3
SOUTH AFRICA	372.9	134.9	238.0	87.2	20.5	306.2
SPAIN	1402.2	317.1	1085.1	96.3	86.2	1392.1
TURKEY	540.4	317.9	222.5	58.7	.0	481.7
OTHER	62.2	23.9	38.3	14.2	3.0	51.0
TOTALS	14614.7	4410.8	10203.8	1375.3	685.2	13924.6
EASTERN EUROPE						
ALBANIA	.0	.0	.0	.0	.0	.0
BULGARIA	26.0	10.0	16.0	.0	.0	26.0
CZECHOSLOVAKIA	8.1	.1	8.6	.0	.0	8.1
GERMAN DEMOCRATIC REPUBLIC	112.1	2.3	109.8	4.0	5.0	113.1
HUNGARY	97.7	23.0	74.7	16.9	.0	80.8
POLAND	36.8	22.9	13.9	9.6	2.0	29.2
ROMANIA	40.4	33.3	7.1	.0	.0	40.4
U.S.S.R.	19.0	1.0	18.0	.0	.0	19.0
YUGOSLAVIA	110.1	21.0	89.1	13.3	.5	97.3
TOTALS	450.4	113.6	336.7	43.8	7.5	414.0
OPEC MEMBERS						
ALGERIA	488.6	145.6	343.0	74.0	7.0	421.6
ECUADOR	280.9	166.1	114.7	131.9	1.4	150.3
GABON	51.2	14.8	36.4	15.0	.0	36.2
INDONESIA	1267.9	459.1	808.7	262.1	136.7	1142.4
IRAN	1.3	1.3	.0	1.3	.0	.0
IRAQ	65.3	37.4	27.9	13.7	1.0	52.6

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985

(IN MILLIONS OF DOLLARS)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
KUWAIT	179.7	110.7	69.0	2.8	13.4	190.3
LIBYA	23.9	12.9	11.0	.0	.0	23.9
NIGERIA	372.6	216.0	156.6	131.4	.0	241.1
QATAR	12.4	5.4	7.0	.9	1.0	12.5
SAUDI ARABIA	1142.5	663.8	478.7	230.7	31.6	943.4
UNITED ARAB EMIRATES	199.5	162.2	37.3	16.2	13.8	197.1
VENEZUELA	627.1	419.1	208.0	131.1	.3	496.3
TOTALS	4713.3	2414.8	2298.5	1011.2	206.2	3908.2
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	1049.0	225.9	823.1	45.0	7.8	1011.7
BOLIVIA	19.9	13.8	6.1	2.6	.0	17.3
BRAZIL	1326.5	287.4	1039.1	499.4	29.9	857.0
CHILE	513.1	196.8	316.3	43.0	4.1	474.2
COLOMBIA	525.4	131.0	394.4	215.9	.2	309.7
COSTA RICA	65.4	17.9	47.5	42.2	.0	23.2
DOMINICAN REPUBLIC	24.9	21.9	3.0	15.1	.0	9.7
EL SALVADOR	103.8	78.4	25.4	38.5	.0	65.3
GUATEMALA	71.2	34.1	37.1	39.2	.0	32.0
HONDURAS	45.0	45.0	.0	28.6	.0	16.3
JAMAICA	22.4	20.2	2.2	6.1	.0	16.3
MEXICO	1575.6	865.5	710.0	518.4	19.2	1076.4
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	55.0	36.5	18.5	6.8	.0	48.2
PERU	289.6	101.1	188.4	149.6	1.0	140.9
TRINIDAD AND TOBAGO	57.0	4.0	53.0	9.0	.0	48.0
URUGUAY	12.3	5.5	6.8	5.5	.0	6.8
OTHER	27.0	21.2	5.8	10.2	.0	16.8
TOTALS	5783.8	2106.9	3676.9	1675.5	62.2	4170.5
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	235.9	63.8	172.1	4.0	75.3	307.2
CHINA,TAIWAN	1112.8	703.9	408.9	110.7	82.5	1084.6
INDIA	615.0	423.2	191.8	26.0	25.2	614.2
ISRAEL	221.1	114.3	106.8	47.1	31.2	205.2
JORDAN	65.3	30.4	34.9	7.2	2.8	60.9
KOREA, SOUTH	2321.7	1337.0	984.6	206.0	322.2	2437.9
MALAYSIA	316.0	172.6	143.4	13.7	2.0	304.3
PAKISTAN	228.5	110.5	118.0	4.1	15.0	239.4
PHILIPPINES	735.8	342.7	393.0	122.2	5.9	619.5
SYRIA	27.8	26.8	1.0	1.0	.0	26.8
THAILAND	514.9	189.7	325.2	10.2	13.6	518.3
OTHER	565.6	170.3	395.3	151.4	7.0	421.2
TOTALS	6960.9	3685.6	3275.2	703.6	582.8	6840.0
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	64.1	8.7	55.4	48.7	.0	15.4
EGYPT	632.9	433.0	199.9	99.8	9.3	542.4

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
GHANA	24.3	15.3	9.0	16.0	4.7	13.0
IVORY COAST	57.1	24.0	33.1	11.1	.0	46.0
KENYA	74.0	16.8	57.2	6.2	.0	67.8
MALAWI	1.7	.4	1.3	1.3	.0	.4
MOROCO	71.9	41.1	30.8	17.4	.0	54.5
SENEGAL	17.6	16.6	1.0	.0	.0	17.6
SUDAN	24.8	24.4	.4	1.8	4.0	27.0
TUNISIA	156.6	5.0	151.6	87.5	.0	69.1
ZAIRE	5.3	5.3	.0	.6	.0	4.7
ZAMBIA	59.2	36.0	23.2	17.1	.0	42.1
OTHER	406.3	306.1	100.2	138.3	3.2	271.2
TOTALS	1596.1	932.8	663.2	445.8	21.2	1171.5
OFFSHORE BANKING CENTERS						
BAHAMAS	184.2	111.6	72.6	68.5	227.1	342.8
BAHRAIN	125.2	91.2	34.0	11.3	15.4	129.3
BERMUDA	2877.8	2309.5	568.3	1712.1	28.2	1193.9
BRITISH WEST INDIES	213.6	160.5	53.0	156.6	86.0	142.9
HONG KONG	2423.1	1622.4	800.7	986.4	266.6	1703.3
LEBANON	140.5	99.3	41.2	33.4	5.1	112.2
LIBERIA	345.2	70.9	274.3	308.6	2.0	38.6
MACAO	11.1	2.0	9.1	.8	.0	10.3
NETHERLANDS ANTILLES	595.2	223.1	372.1	441.2	8.6	162.6
PANAMA	587.2	395.6	191.6	391.2	25.3	221.3
SINGAPORE	880.4	473.0	407.4	195.3	313.1	998.1
TOTALS	8383.9	5559.5	2824.4	4305.7	977.5	5055.8
INTERNATIONAL & REGIONAL ORGANIZATIONS						
AFRICAN REGIONAL	13.1	.0	13.1	.0	.0	13.1
ASIAN REGIONAL	.0	.0	.0	.0	.0	.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
INTERNATIONAL	76.0	.0	76.0	.0	258.5	334.5
LATIN AMERICAN REGIONAL	3.1	3.1	.0	.0	12.7	15.9
MIDDLE EASTERN REGIONAL	22.0	22.0	.0	.0	.0	22.0
W. EUROPEAN REGIONAL	85.8	10.8	75.0	.0	.0	85.8
TOTALS	200.0	35.9	164.1	.0	271.3	471.4
**** GRAND **** ** TOTALS **	85542.0	29418.3	56123.6	12929.4	11832.2	84444.8

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	5078.8	1128.8	130.2	3819.8	265.4	1133.2	5218.4
CANADA	6344.6	125.0	418.2	5801.4	1248.9	362.9	7413.2
FRANCE	7147.4	386.2	91.0	6670.2	1552.2	768.9	8991.3
GERMANY, FEDERAL REPUBLIC OF	3861.0	122.0	253.9	3485.1	874.5	513.8	4873.4
ITALY	4323.4	121.0	91.9	4110.5	1378.7	398.3	5887.5
JAPAN	10574.0	55.0	88.2	10430.8	11247.8	905.8	22584.4
NETHERLANDS	1656.8	127.5	246.1	1283.2	313.1	335.3	1931.6
SWEDEN	1363.3	59.0	11.0	1293.3	57.0	142.7	1493.0
SWITZERLAND	2204.6	42.0	311.3	1851.3	181.6	517.9	2550.8
UNITED KINGDOM	21341.1	7961.6	1968.9	11410.6	830.4	3295.9	15536.9
TOTALS	63895.0	10128.1	3610.7	50156.2	17949.6	8374.7	76480.5
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	3852.6	1.0	337.1	3514.5	194.5	238.8	3947.8
AUSTRIA	989.8	5.3	23.0	961.5	93.9	63.0	1118.4
DENMARK	1901.9	3.0	87.4	1811.5	107.6	235.4	2154.5
FINLAND	1223.6	.0	113.0	1110.6	62.0	54.4	1227.0
GREECE	2363.7	35.0	170.7	2158.0	14.0	186.0	2358.0
ICELAND	214.5	.0	20.0	194.5	.0	.0	194.5
IRELAND, REPUBLIC OF	847.7	75.2	37.0	735.5	83.7	69.0	888.2
NEW ZEALAND	642.3	3.0	54.0	585.3	38.0	13.0	636.3
NORWAY	2762.7	5.0	272.5	2485.2	9.0	408.7	2902.9
PORTUGAL	952.8	38.0	73.2	841.6	232.6	8.0	1082.2
SOUTH AFRICA	2413.8	79.0	132.1	2202.7	73.0	74.4	2350.1
SPAIN	2938.9	86.9	355.8	2496.2	232.5	41.0	2769.7
TURKEY	1578.9	6.0	109.1	1463.8	2.0	9.0	1474.8
OTHER	190.3	3.0	80.0	107.3	1.0	13.0	121.3
TOTALS	22873.5	340.4	1864.9	20668.2	1143.8	1413.7	23225.7
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	96.0	.0	.0	96.0	.0	.0	96.0
CZECHOSLOVAKIA	84.4	3.7	3.0	77.7	.0	3.0	80.7
GERMAN DEMOCRATIC REPUBLIC	287.7	.0	1.0	286.7	.0	.0	286.7
HUNGARY	465.3	.0	21.0	444.3	.0	.0	444.3
POLAND	442.8	11.0	13.1	418.7	.0	.0	418.7
ROMANIA	177.0	.0	1.0	176.0	.0	.0	176.0
U.S.S.R.	143.2	4.8	17.0	121.4	6.0	.0	127.4
YUGOSLAVIA	1533.6	72.8	93.0	1367.8	5.0	37.0	1409.8
TOTALS	3230.0	92.3	149.1	2988.6	11.0	40.0	3039.6
OPEC MEMBERS							
ALGERIA	685.7	2.0	48.0	635.7	.0	39.0	674.7
ECUADOR	1406.3	.0	194.8	1211.5	.0	.0	1211.5

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
GABON	52.7	1.0	14.5	37.2	.0	15.5	52.7
INDONESIA	2460.7	3.5	423.5	2033.7	46.9	90.0	2170.6
IRAN	.0	.0	.0	.0	.0	.0	.0
IRAQ	537.2	362.0	80.2	95.0	.0	.0	95.0
KUWAIT	665.1	11.4	32.0	621.7	97.2	22.0	740.9
LIBYA	36.0	.0	11.0	25.0	.0	.0	25.0
NIGERIA	1118.9	84.0	251.9	783.0	.0	30.0	813.0
QATAR	12.7	.0	10.2	2.5	14.0	.0	16.5
SAUDI ARABIA	1571.6	28.0	190.5	1353.1	117.7	203.1	1673.9
UNITED ARAB EMIRATES	496.3	47.8	53.4	395.1	28.0	8.7	431.8
VENEZUELA	7250.3	15.0	265.9	6969.4	79.5	31.2	7080.1
TOTALS	16293.5	554.7	1575.9	14162.9	383.3	439.5	14985.7
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	5679.4	3.0	461.7	5214.7	731.0	16.8	5962.5
BOLIVIA	80.0	2.0	5.0	73.0	2.0	.0	75.0
BRAZIL	15512.0	334.5	645.7	14531.8	1407.7	64.0	16003.5
CHILE	3783.3	158.5	92.9	3531.9	13.0	55.0	3599.9
COLOMBIA	1911.6	102.0	24.5	1785.1	64.0	3.0	1852.1
COSTA RICA	225.7	1.0	6.9	217.8	.0	2.0	219.8
DOMINICAN REPUBLIC	349.6	7.0	33.3	309.3	.0	.0	309.3
EL SALVADOR	46.5	16.0	2.8	27.7	.0	.0	27.7
GUATEMALA	51.9	.0	2.2	49.7	.0	.0	49.7
HONDURAS	74.9	.0	12.5	62.4	.0	.0	62.4
JAMAICA	216.3	.3	79.4	136.6	.0	.0	136.6
MEXICO	14185.4	137.0	623.1	13425.3	463.0	47.0	13935.3
NICARAGUA	84.1	.0	1.0	83.1	.0	.0	83.1
PARAGUAY	163.8	.0	4.0	159.8	.0	2.0	161.8
PERU	1087.0	25.0	88.4	973.6	1.0	4.0	978.6
TRINIDAD AND TOBAGO	119.0	.0	3.0	116.0	.0	2.0	118.0
URUGUAY	713.8	.0	16.6	697.2	.0	.0	697.2
OTHER	41.9	2.0	9.0	30.9	.0	.0	30.9
TOTALS	44326.2	788.3	2112.0	41425.9	2681.7	195.8	44303.4
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	342.0	.0	.0	342.0	332.3	71.0	745.3
CHINA,TAIWAN	1236.0	24.0	58.1	1153.9	30.2	118.3	1302.4
INDIA	704.1	11.0	16.0	677.1	144.0	11.0	832.1
ISRAEL	1059.0	59.5	38.0	961.5	59.0	61.0	1081.5
JORDAN	185.2	3.0	12.6	169.6	48.2	.0	217.8
KOREA, SOUTH	5753.0	438.7	162.5	5151.8	165.9	473.0	5790.7
MALAYSIA	1103.4	2.0	59.7	1041.7	81.4	60.4	1183.5
PAKISTAN	172.2	.0	.6	171.6	17.3	21.8	210.4
PHILIPPINES	3812.2	123.0	186.5	3502.7	95.2	4.0	3601.9

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS

(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OW U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWI
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
SYRIA	12.5	.0	.0	12.5	.0	1.0	13.5
THAILAND	1228.4	32.2	55.5	1140.7	138.1	7.5	1286.3
OTHER	751.6	43.1	178.0	530.5	5.0	2.0	537.5
TOTALS	16359.6	736.5	767.5	14855.6	1116.3	831.0	16802.9
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	176.2	.0	89.0	87.2	.0	5.0	92.2
EGYPT	744.0	119.0	122.1	502.9	17.0	4.0	523.9
GHANA	7.0	.0	5.0	2.0	.0	1.0	3.0
IVORY COAST	314.0	1.0	6.5	306.5	.0	.0	306.5
KENYA	81.0	.0	5.4	75.6	.0	.0	75.6
MALAWI	39.2	.0	1.0	38.2	3.0	.0	41.2
MOROCO	688.0	62.0	3.0	623.0	7.0	5.0	635.0
SENEGAL	58.5	.0	.0	58.5	.0	.2	58.7
SUDAN	65.9	.0	3.8	62.1	1.0	.0	63.1
TUNISIA	216.9	2.5	63.0	151.4	.0	.0	151.4
ZAIRE	22.7	.0	12.5	10.2	.0	.0	10.2
ZAMBIA	82.7	.0	26.2	56.5	.0	.0	56.5
OTHER	562.7	1.0	218.0	343.7	2.0	5.0	350.7
TOTALS	3058.8	185.5	555.5	2317.8	30.0	20.2	2368.0
OFFSHORE BANKING CENTERS							
BAHAMAS	1501.7	915.6	257.5	328.6	7.0	42.9	378.5
BAHRAIN	946.6	507.2	74.6	364.8	85.4	2.0	452.2
BERMUDA	483.4	.0	296.0	187.4	1.0	39.0	227.4
BRITISH WEST INDIES	2104.7	1849.4	91.0	164.3	.0	3.0	167.3
HONG KONG	4113.3	1568.7	864.5	1680.1	43.6	425.1	2148.8
LEBANON	70.5	.8	22.0	47.7	20.0	5.3	73.0
LIBERIA	1169.7	1.0	1106.4	62.3	.0	.0	62.3
MACAO	154.0	100.1	.7	53.2	.0	5.8	59.0
NETHERLANDS ANTILLES	752.6	107.0	467.8	177.8	5.0	20.7	203.5
PANAMA	1764.2	200.1	908.5	655.6	17.0	25.9	698.5
SINGAPORE	3466.5	2116.0	317.3	1033.2	43.1	204.4	1280.7
TOTALS	16527.2	7365.9	4406.3	4755.0	222.1	774.1	5751.2
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.7	.0	.0	.7	.0	.0	.7
ASIAN REGIONAL	1.0	.0	.0	1.0	.0	1.0	2.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	293.0	2.0	10.0	281.0	4.0	.0	285.0
LATIN AMERICAN REGIONAL	4.0	.0	1.0	3.0	10.0	1.0	14.0
MIDDLE EASTERN REGIONAL	99.0	.0	.0	99.0	.0	.0	99.0
W. EUROPEAN REGIONAL	170.8	.0	.0	170.8	2.0	10.0	182.8
TOTALS	568.5	2.0	11.0	555.5	16.0	12.0	583.5
Grand Totals	187132.3	20193.7	15052.9	151885.7	23553.8	12101.0	187540.5

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	5078.8	3825.1	482.5	771.2	4451.5	365.3	262.0
CANADA	6344.6	2000.3	212.8	4131.5	3242.8	1220.7	1881.1
FRANCE	7147.4	4779.0	1270.3	1098.1	5540.3	903.2	703.9
GERMANY, FEDERAL REPUBLIC OF	3861.0	1070.4	707.0	2083.6	2418.5	1110.1	332.4
ITALY	4323.4	2213.2	1404.3	705.9	2591.6	1119.6	612.2
JAPAN	10574.0	5192.8	142.8	5238.4	8218.2	1921.1	434.7
NETHERLANDS	1656.8	467.8	96.7	1092.3	1243.4	200.6	212.8
SWEDEN	1363.3	555.7	216.7	590.9	908.0	309.5	145.8
SWITZERLAND	2204.6	688.3	139.3	1377.0	1774.5	252.3	177.8
UNITED KINGDOM	21341.1	12190.0	662.6	8488.5	17249.2	2374.8	1717.1
TOTALS	63895.0	32982.6	5335.0	25577.4	47638.0	9777.2	6479.8
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	3852.6	250.9	323.5	3278.2	1533.6	1176.0	1143.0
AUSTRIA	989.8	580.4	323.8	85.6	753.3	152.0	84.5
DENMARK	1901.9	314.4	180.1	1407.4	1082.8	575.2	243.9
FINLAND	1223.6	328.7	326.1	568.8	695.3	411.8	116.5
GREECE	2363.7	123.0	676.3	1564.4	806.9	1028.6	528.2
ICELAND	214.5	42.7	93.4	78.4	93.7	69.1	51.7
IRELAND, REPUBLIC OF	847.7	195.9	458.0	193.8	411.2	197.4	239.1
NEW ZEALAND	642.3	19.3	145.5	477.5	187.3	214.8	240.2
NORWAY	2762.7	453.8	136.4	2172.5	1125.8	906.7	730.2
PORTUGAL	952.8	332.8	565.1	54.9	469.0	393.0	90.8
SOUTH AFRICA	2413.8	1444.9	85.0	883.9	1964.2	418.7	30.9
SPAIN	2938.9	1201.7	774.2	963.0	1476.4	1001.3	461.2
TURKEY	1578.9	371.6	1022.3	185.0	866.4	609.5	103.0
OTHER	190.3	12.0	21.0	157.3	90.9	86.1	13.3
TOTALS	22873.5	5672.1	5130.7	12070.7	11556.8	7240.2	4076.5
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	96.0	9.0	87.0	.0	76.0	20.0	.0
CZECHOSLOVAKIA	84.4	59.4	22.0	3.0	60.3	24.1	.0
GERMAN DEMOCRATIC REPUBLIC	287.7	231.7	48.0	8.0	238.0	48.7	1.0
HUNGARY	465.3	49.0	416.3	.0	217.9	187.4	60.0
POLAND	442.8	101.0	341.8	.0	127.0	223.1	92.7
ROMANIA	177.0	3.0	174.0	.0	93.0	80.0	4.0
U.S.S.R.	143.2	17.2	126.0	.0	54.5	75.3	13.4
YUGOSLAVIA	1533.6	810.1	580.5	143.0	641.9	692.1	199.6
TOTALS	3230.0	1280.4	1795.6	154.0	1508.6	1350.7	370.7
OPEC MEMBERS							
ALGERIA	685.7	296.7	339.0	50.0	227.5	233.8	224.4
ECUADOR	1406.3	116.7	1174.3	115.3	758.4	384.5	263.4
GABON	52.7	.0	40.5	12.2	25.2	20.6	6.9

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

COUNTRY —	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
INDONESIA	2460.7	94.8	682.1	1683.8	1378.3	685.7	396.7
IRAN	.0	.0	.0	.0	.0	.0	.0
IRAQ	537.2	426.0	110.2	1.0	293.4	242.8	1.0
KUWAIT	665.1	444.2	29.0	191.9	617.4	47.7	.0
LIBYA	36.0	10.0	15.0	11.0	36.0	.0	.0
NIGERIA	1118.9	273.2	736.7	109.0	749.3	308.3	61.3
QATAR	12.7	.0	.0	12.7	9.7	3.0	.0
SAUDI ARABIA	1571.6	330.4	25.0	1216.2	1107.4	264.6	199.6
UNITED ARAB EMIRATES	496.3	236.7	150.9	108.7	399.1	83.8	13.4
VENEZUELA	7250.3	1328.4	4058.3	1863.6	5989.6	962.2	298.5
TOTALS	16293.5	3557.1	7361.0	5375.4	11591.3	3237.0	1465.2
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	5679.4	831.5	3257.9	1590.0	3617.0	1573.4	489.0
BOLIVIA	80.0	4.0	68.5	7.5	77.0	3.0	.0
BRAZIL	15512.0	3928.7	8873.2	2710.1	5615.1	5943.6	3953.3
CHILE	3783.3	1298.1	1844.7	640.5	1413.1	1756.9	613.3
COLOMBIA	1911.6	630.4	813.1	468.1	1016.4	535.1	360.1
COSTA RICA	225.7	2.0	204.8	18.9	60.9	140.9	23.9
DOMINICAN REPUBLIC	349.6	17.4	298.6	33.6	202.3	142.3	5.0
EL SALVADOR	46.5	17.3	23.0	6.2	23.6	21.9	1.0
GUATEMALA	51.9	.0	23.6	28.3	27.0	21.2	3.7
HONDURAS	74.9	.0	39.3	35.6	53.9	20.0	1.0
JAMAICA	216.3	.3	213.6	2.4	75.3	103.8	37.2
MEXICO	14185.4	2243.0	8116.1	3826.3	4565.2	6006.1	3614.1
NICARAGUA	84.1	11.4	72.7	.0	63.1	6.0	15.0
PARAGUAY	163.8	1.0	113.1	49.7	70.2	83.6	10.0
PERU	1087.0	160.9	761.1	165.0	701.6	301.7	83.7
TRINIDAD AND TOBAGO	119.0	.0	112.0	7.0	65.0	37.0	17.0
URUGUAY	713.8	19.1	639.7	55.0	231.3	464.5	18.0
OTHER	41.9	8.5	29.3	4.1	28.0	6.9	7.0
TOTALS	44326.2	9173.6	25504.3	9648.3	17906.0	17167.9	9252.3
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	342.0	162.0	113.0	67.0	286.0	29.0	27.0
CHINA,TAIWAN	1236.0	385.5	456.5	394.0	722.4	372.7	140.9
INDIA	704.1	115.9	267.9	320.3	304.3	234.5	165.3
ISRAEL	1059.0	795.0	129.0	135.0	817.2	209.8	32.0
JORDAN	185.2	59.0	98.2	28.0	119.0	47.6	18.6
KOREA, SOUTH	5753.0	2086.0	1353.8	2313.2	3619.8	1299.5	833.7
MALAYSIA	1103.4	107.1	529.8	466.5	256.6	579.0	267.8
PAKISTAN	172.2	14.1	100.5	57.6	94.3	77.9	.0
PHILIPPINES	3812.2	457.9	2384.4	969.9	1635.0	1690.0	487.2
SYRIA	12.5	11.5	.0	1.0	12.5	.0	.0
THAILAND	1228.4	515.1	148.4	564.9	939.7	216.8	71.9

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	751.6	135.1	282.6	333.9	225.3	412.2	114.1
TOTALS	16359.6	4844.2	5864.1	5651.3	9032.1	5169.0	2158.5
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	176.2	16.0	72.0	88.2	49.1	115.1	12.0
EGYPT	744.0	422.0	101.3	220.7	568.8	119.7	55.5
GHANA	7.0	1.0	4.0	2.0	5.0	2.0	.0
IVORY COAST	314.0	15.0	254.3	44.7	112.1	115.8	86.1
KENYA	81.0	2.0	23.3	55.7	61.7	18.3	1.0
MALAWI	39.2	13.8	21.4	4.0	29.8	9.4	.0
MOROCO	688.0	328.9	327.2	31.9	554.7	123.9	9.4
SENEGAL	58.5	2.0	29.3	27.2	37.8	18.1	2.6
SUDAN	65.9	15.0	49.9	1.0	50.3	4.0	11.6
TUNISIA	216.9	63.7	141.2	12.0	134.7	62.0	20.2
ZAIRE	22.7	.0	22.7	.0	17.5	5.2	.0
ZAMBIA	82.7	3.0	75.0	4.7	44.0	14.7	24.0
OTHER	562.7	112.4	298.5	151.8	361.8	143.4	57.5
TOTALS	3058.8	994.8	1420.1	643.9	2027.3	751.6	279.9
OFFSHORE BANKING CENTERS							
BAHAMAS	1501.7	1179.6	12.2	309.9	1255.1	200.4	46.2
BAHRAIN	946.6	861.9	36.0	48.7	906.6	33.0	7.0
BERMUDA	483.4	12.0	59.0	412.4	359.4	45.0	79.0
BRITISH WEST INDIES	2104.7	1972.4	27.0	105.3	2013.3	55.8	35.6
HONG KONG	4113.3	2223.0	76.0	1814.3	3235.0	537.8	340.5
LEBANON	70.5	35.8	.0	34.7	63.5	5.0	2.0
LIBERIA	1169.7	7.0	39.6	1123.1	384.8	524.9	260.0
MACAO	154.0	145.1	7.0	1.9	144.2	7.0	2.8
NETHERLANDS ANTILLES	752.6	127.2	12.3	613.1	376.5	248.8	127.3
PANAMA	1764.2	258.1	252.9	1253.2	902.6	580.5	281.1
SINGAPORE	3466.5	2591.0	102.3	773.2	3082.3	219.4	164.8
TOTALS	16527.2	9413.1	624.3	6489.8	12723.3	2457.6	1346.3
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.7	.0	.7	.0	.7	.0	.0
ASIAN REGIONAL	1.0	.0	1.0	.0	.0	.0	1.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	293.0	.0	293.0	.0	136.0	52.0	105.0
LATIN AMERICAN REGIONAL	4.0	.0	4.0	.0	1.0	1.0	2.0
MIDDLE EASTERN REGIONAL	99.0	.0	99.0	.0	97.0	.0	2.0
W. EUROPEAN REGIONAL	170.8	.0	170.8	.0	68.4	23.4	79.0
TOTALS	568.5	.0	568.5	.0	303.1	76.4	189.0
Grand Totals	187132.3	67917.9	53603.6	65610.8	114286.5	47227.6	25618.2

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985

(IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	1238.5	160.9	1077.6	170.8	1378.4	2446.1
CANADA	4144.5	504.4	3640.1	104.0	216.6	4257.1
FRANCE	5439.4	738.1	4701.3	265.0	892.3	6066.7
GERMANY, FEDERAL REPUBLIC OF	1850.6	972.8	877.8	73.6	211.0	1988.0
ITALY	2165.3	205.0	1960.3	51.9	233.3	2346.7
JAPAN	3189.3	876.7	2312.6	55.2	727.9	3862.0
NETHERLANDS	1200.6	363.9	836.7	139.0	206.6	1268.2
SWEDEN	2638.8	406.8	2232.0	44.0	159.8	2754.6
SWITZERLAND	3167.6	1864.0	1303.6	222.4	386.0	3331.2
UNITED KINGDOM	9960.3	2334.6	7625.7	1791.0	2807.5	10976.8
TOTALS	34994.9	8427.2	26567.7	2916.9	7219.4	39297.4
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	3893.3	1320.9	2572.4	226.0	95.5	3762.8
AUSTRIA	589.8	130.3	459.5	6.0	8.0	591.8
DENMARK	1160.8	143.6	1017.2	35.2	87.0	1212.6
FINLAND	488.8	185.0	303.8	33.7	5.7	460.8
GREECE	667.0	189.2	477.8	37.5	41.2	670.7
ICELAND	34.2	4.1	30.1	.1	.0	34.1
IRELAND, REPUBLIC OF	689.9	109.0	580.9	158.1	25.0	556.8
NEW ZEALAND	931.4	434.9	496.5	316.2	34.3	649.5
NORWAY	1715.1	404.5	1310.6	196.2	109.0	1627.9
PORTUGAL	285.8	171.8	114.0	16.8	2.0	271.0
SOUTH AFRICA	308.3	120.0	188.3	41.0	14.0	281.3
SPAIN	1192.3	244.1	948.2	87.1	83.2	1188.4
TURKEY	451.0	250.7	200.3	32.4	.0	418.6
OTHER	58.4	20.1	38.3	14.0	2.0	46.4
TOTALS	12466.1	3728.2	8737.9	1200.3	506.9	11772.7
EASTERN EUROPE						
ALBANIA	.0	.0	.0	.0	.0	.0
BULGARIA	16.0	.0	16.0	.0	.0	16.0
CZECHOSLOVAKIA	8.1	.1	8.0	.0	.0	8.1
GERMAN DEMOCRATIC REPUBLIC	85.2	1.0	84.2	4.0	.0	81.2
HUNGARY	59.6	8.0	51.6	.0	.0	59.6
POLAND	24.6	13.1	11.5	3.0	2.0	23.6
ROMANIA	27.1	27.0	.1	.0	.0	27.1
U.S.S.R.	9.0	1.0	8.0	.0	.0	9.0
YUGOSLAVIA	31.7	10.0	21.7	5.0	.0	26.7
TOTALS	261.3	60.2	201.1	12.0	2.0	251.3
OPEC MEMBERS						
ALGERIA	457.0	141.7	315.3	74.0	7.0	390.0
ECUADOR	178.8	107.8	71.0	118.7	.0	60.1
GABON	47.1	13.8	33.3	15.0	.0	32.1
INDONESIA	1032.7	383.3	649.4	203.1	94.3	923.9
IRAN	1.3	1.3	.0	1.3	.0	.0

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
IRAQ	16.0	14.0	2.0	2.0	1.0	15.0
KUWAIT	117.1	71.1	46.0	.8	13.3	129.6
LIBYA	17.0	10.0	7.0	.0	.0	17.0
NIGERIA	308.4	182.8	125.6	114.2	.0	194.2
QATAR	11.3	5.3	6.0	.9	.0	10.4
SAUDI ARABIA	997.0	606.0	391.0	226.3	27.4	798.1
UNITED ARAB EMIRATES	181.1	145.8	35.3	16.0	12.0	177.1
VENEZUELA	536.8	334.6	202.2	111.6	.0	425.2
TOTALS	3901.6	2017.5	1884.1	883.9	155.0	3172.7
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	801.7	156.1	645.6	28.3	6.6	780.0
BOLIVIA	2.1	1.0	1.1	1.1	.0	1.0
BRAZIL	1007.5	170.7	836.8	374.1	28.5	661.9
CHILE	402.2	133.7	268.5	33.0	4.0	373.2
COLOMBIA	445.6	70.0	375.6	214.0	.0	231.6
COSTA RICA	18.0	6.0	12.0	4.0	.0	14.0
DOMINICAN REPUBLIC	15.7	12.7	3.0	8.7	.0	7.0
EL SALVADOR	19.4	3.4	16.0	.0	.0	19.4
GUATEMALA	33.0	4.0	29.0	22.0	.0	11.0
HONDURAS	3.0	3.0	.0	.1	.0	2.9
JAMAICA	11.2	10.2	1.0	4.0	.0	7.2
MEXICO	1140.3	537.0	603.3	412.9	15.0	742.4
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	53.2	34.7	18.5	5.5	.0	47.7
PERU	209.6	61.6	148.0	127.2	1.0	83.4
TRINIDAD AND TOBAGO	48.0	4.0	44.0	.0	.0	48.0
URUGUAY	7.8	2.0	5.8	4.9	.0	2.9
OTHER	17.6	12.3	5.3	5.4	.0	12.2
TOTALS	4235.9	1222.4	3013.5	1245.2	55.1	3045.8
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	188.4	62.4	126.0	.0	59.0	247.4
CHINA,TAIWAN	942.4	596.6	345.8	110.7	62.2	893.9
INDIA	557.4	381.2	176.2	26.0	18.1	549.5
ISRAEL	179.3	78.7	100.6	36.0	21.0	164.3
JORDAN	55.7	27.8	27.9	7.0	2.2	50.9
KOREA, SOUTH	1907.2	1135.4	771.8	199.0	275.0	1983.2
MALAYSIA	292.3	171.7	120.6	13.7	2.0	280.6
PAKISTAN	222.4	106.4	116.0	2.1	15.0	235.3
PHILIPPINES	520.7	243.1	277.6	63.4	2.0	459.3
SYRIA	21.3	20.3	1.0	1.0	.0	20.3
THAILAND	347.0	105.1	241.9	10.0	11.1	348.1
OTHER	537.3	148.8	388.5	145.9	5.0	396.4
TOTALS	5771.4	3077.5	2693.9	614.8	472.6	5629.2

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	48.2	5.2	43.0	38.0	.0	10.2
EGYPT	510.4	315.3	195.1	87.8	9.1	431.7
GHANA	24.0	15.0	9.0	16.0	4.0	12.0
IVORY COAST	47.4	19.4	28.0	11.0	.0	36.4
KENYA	73.5	16.3	57.2	6.1	.0	67.4
MALAWI	1.7	.4	1.3	1.3	.0	.4
MOROCCO	31.9	2.1	29.8	17.4	.0	14.5
SENEGAL	17.6	16.6	1.0	.0	.0	17.6
SUDAN	1.5	1.1	.4	1.5	6.0	6.0
TUNISIA	155.1	4.5	150.6	87.5	.0	67.6
ZAIRE	4.7	4.7	.0	.0	.0	4.7
ZAMBIA	56.8	33.6	23.2	17.1	.0	39.7
OTHER	246.8	163.0	83.8	76.1	3.0	173.7
TOTALS	1219.6	598.0	621.6	359.8	20.1	879.9
OFFSHORE BANKING CENTERS						
BAHAMAS	149.2	82.9	66.3	50.0	222.8	322.0
BAHRAIN	106.2	72.2	34.0	10.0	15.4	111.6
BERMUDA	2253.1	1774.1	479.0	1474.0	11.0	790.1
BRITISH WEST INDIES	198.3	146.3	52.0	151.3	85.0	132.0
HONG KONG	2068.4	1334.8	733.6	910.3	253.1	1411.2
LEBANON	116.3	85.0	31.3	32.1	4.3	88.5
LIBERIA	317.4	59.4	258.0	291.7	2.0	27.7
MACAO	1.5	1.0	.5	.2	.0	1.3
NETHERLANDS ANTILLES	514.5	196.0	318.5	394.8	5.4	125.1
PANAMA	456.2	282.2	174.0	348.6	24.2	131.8
SINGAPORE	749.1	382.0	367.1	124.1	312.0	937.0
TOTALS	6930.2	4415.9	2514.3	3787.1	935.2	4078.3
INTERNATIONAL & REGIONAL ORGANIZATIONS						
AFRICAN REGIONAL	12.0	.0	12.0	.0	.0	12.0
ASIAN REGIONAL	.0	.0	.0	.0	.0	.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
INTERNATIONAL	76.0	.0	76.0	.0	257.0	333.0
LATIN AMERICAN REGIONAL	1.0	1.0	.0	.0	2.0	3.0
MIDDLE EASTERN REGIONAL	22.0	22.0	.0	.0	.0	22.0
W. EUROPEAN REGIONAL	85.0	10.0	75.0	.0	.0	85.0
TOTALS	196.0	33.0	163.0	.0	259.0	455.0
**** GRAND **** ** TOTALS **	69977.8	23580.7	46397.1	11020.0	9625.3	68583.1

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINOS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1544.9	626.8	8.0	910.0	328.6	33.9	1272.6
CANADA	2353.4	174.7	162.3	2016.4	1169.0	114.8	3300.4
FRANCE	2184.3	456.4	11.3	1716.6	1996.8	56.6	3770.0
GERMANY, FEDERAL REPUBLIC OF	358.2	38.1	34.9	285.1	853.2	117.7	1256.1
ITALY	1401.1	38.5	.1	1362.5	1246.3	58.9	2667.7
JAPAN	2817.1	53.3	68.9	2694.9	9197.2	169.9	12062.0
NETHERLANDS	427.5	28.8	103.9	294.7	376.5	34.7	706.0
SWEDEN	608.4	.0	9.7	598.7	34.0	24.2	657.0
SWITZERLAND	541.6	12.8	1.4	527.4	310.0	117.2	954.7
UNITED KINGDOM	8385.9	5031.7	285.4	3068.6	901.1	271.1	4240.9
TOTALS	20622.8	6461.2	686.1	13475.4	16413.0	999.3	30887.8
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	1289.0	23.5	30.8	1234.7	467.9	208.0	1910.7
AUSTRIA	307.8	5.0	.0	302.8	95.4	34.6	432.8
DENMARK	304.5	.0	.0	304.5	160.4	4.5	469.5
FINLAND	280.9	2.0	.0	278.9	41.2	.0	320.2
GREECE	261.4	6.2	.3	254.9	8.4	41.1	304.4
ICELAND	24.8	1.0	0	23.8	2.0	.0	25.8
IRELAND, REPUBLIC OF	214.4	18.1	.0	196.2	182.6	.0	378.9
NEW ZEALAND	251.9	2.3	7.2	242.3	49.7	14.2	306.2
NORWAY	371.3	.0	2.0	369.3	41.0	9.9	420.3
PORTUGAL	241.9	22.2	.0	219.7	92.6	13.0	325.3
SOUTH AFRICA	738.8	111.6	12.4	614.8	43.0	25.4	683.3
SPAIN	706.8	40.0	3.0	663.8	169.5	.0	833.3
TURKEY	448.9	2.0	66.2	380.7	1.5	.0	382.2
OTHER	12.5	.0	.1	12.4	.0	.0	12.4
TOTALS	5455.6	234.0	122.0	5099.5	1355.4	350.9	6805.9
EASTERN EUROPE							
BULGARIA	9.5	.0	.0	9.5	.0	.0	9.5
CZECHOSLOVAKIA	10.0	.0	.0	10.0	.0	.0	10.0
GERMAN DEMOCRATIC REPUBLIC	41.2	.0	.0	41.2	10.0	10.0	61.2
HUNGARY	146.4	2.0	3.0	141.4	.0	.0	141.4
POLAND	87.1	.0	5.0	82.1	.0	.0	82.1
ROMANIA	13.9	.0	.0	13.9	.0	2.9	16.8
U.S.S.R.	11.2	.0	8.2	3.0	9.0	.0	12.0
YUGOSLAVIA	426.4	13.0	5.9	407.4	.0	12.0	419.4
TOTALS	745.9	15.0	22.1	708.7	19.0	24.9	752.6
OPEC MEMBERS							
ALGERIA	238.4	.0	.2	238.2	3.6	.0	241.8
ECUADOR	297.3	3.7	.2	293.4	.0	.0	293.4
GABON	5.6	.0	.3	5.3	.0	.0	5.3

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
INDONESIA	377.2	5.2	77.5	294.4	36.8	38.5	369.7
IRAN	2.0	.0	2.0	.0	.0	.0	.0
IRAQ	78.3	3.1	1.5	73.7	.2	.0	73.9
KUWAIT	97.7	.0	2.0	95.7	100.0	.0	195.7
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	187.8	4.9	35.0	147.9	.0	.0	147.9
QATAR	.0	.0	.0	.0	5.0	.0	5.0
SAUDI ARABIA	94.6	.0	11.1	83.5	35.8	1.0	120.3
UNITED ARAB EMIRATES	82.2	15.8	7.4	59.0	43.3	.0	102.3
VENEZUELA	1722.6	2.0	98.1	1622.4	44.0	.0	1666.4
TOTALS	3184.3	34.7	235.4	2914.1	268.7	39.5	3222.3
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	1592.0	1.0	82.6	1508.4	99.5	17.0	1624.9
BOLIVIA	37.0	1.9	.5	34.6	.0	.0	34.6
BRAZIL	4108.9	79.7	168.4	3860.7	529.9	127.3	4518.0
CHILE	1091.4	35.4	56.7	999.3	1.0	6.0	1006.3
COLOMBIA	364.2	3.0	22.5	338.7	34.1	2.0	374.8
COSTA RICA	124.4	1.0	8.4	115.0	.0	2.0	117.0
DOMINICAN REPUBLIC	64.0	12.2	.3	51.5	.0	.0	51.5
EL SALVADOR	6.8	1.6	4.0	1.2	.0	.0	1.2
GUATEMALA	13.8	.0	5.5	8.3	.0	.0	8.3
HONDURAS	30.4	1.6	11.0	17.8	.0	.0	17.8
JAMAICA	18.1	.1	11.0	7.0	.0	.0	7.0
MEXICO	4832.6	61.5	308.6	4462.4	386.1	75.3	4923.9
NICARAGUA	40.5	.0	.0	40.5	.0	.0	40.5
PARAGUAY	3.7	.0	.6	3.1	.0	.0	3.1
PERU	442.1	1.8	69.6	370.7	.0	.0	370.7
TRINIDAD AND TOBAGO	22.1	.0	19.6	2.5	.0	.2	2.7
URUGUAY	123.3	1.4	5.6	116.3	.0	.0	116.3
OTHER	24.7	5.4	9.1	10.2	.0	.0	10.2
TOTALS	12940.5	207.7	784.1	11948.6	1050.7	229.8	13229.2
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	96.6	.0	.0	96.6	167.8	2.5	267.0
CHINA,TAIWAN	505.8	37.0	11.1	457.7	50.1	19.2	527.0
INDIA	151.1	.0	.7	150.4	94.7	74.1	319.3
ISRAEL	269.4	64.5	19.6	185.3	16.4	3.0	204.7
JORDAN	9.5	.1	1.1	8.3	35.1	.0	43.4
KOREA, SOUTH	2697.5	336.6	34.6	2326.2	277.4	144.7	2748.4
MALAYSIA	265.6	1.5	.0	264.1	57.8	5.0	326.9
PAKISTAN	1.7	1.1	.0	.6	2.0	.0	2.6
PHILIPPINES	1188.6	14.5	59.7	1114.3	14.9	36.0	1165.2
SYRIA	3.0	.0	2.0	1.0	.0	.0	1.0

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNYS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
THAILAND	514.5	11.3	8.6	494.6	105.6	2.2	602.4
OTHER	76.2	19.3	4.5	52.4	1.0	2.0	55.4
TOTALS	5779.8	486.0	142.0	5151.7	823.0	288.8	6263.6
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.8	.0	1.3	23.5	.0	.0	23.5
EGYPT	189.6	50.1	10.7	128.8	20.4	.6	149.8
GHANA	2.0	.0	2.0	.0	.0	.0	.0
IVORY COAST	43.6	.0	.0	43.6	.0	.0	43.6
KENYA	.4	.0	.0	.4	.0	.0	.4
MALAWI	4.2	.0	.0	4.2	.0	.0	4.2
MOROCO	94.6	13.5	.2	80.9	3.0	4.0	87.9
SENEGAL	2.4	.0	.0	2.4	.0	.0	2.4
SUDAN	.7	.4	.3	.0	.0	.0	.0
TUNISIA	6.6	1.0	.0	5.6	.0	.0	5.6
ZAIRE	2.0	.0	2.0	.0	.0	.0	.0
ZAMBIA	3.9	.0	.0	3.9	.0	.0	3.9
OTHER	71.8	5.1	18.3	48.4	.0	.0	48.4
TOTALS	446.8	70.1	34.8	341.9	23.4	4.6	369.9
OFFSHORE BANKING CENTERS							
BAHAMAS	993.3	813.0	32.5	147.7	6.0	3.0	156.8
BAHRAIN	415.4	221.6	5.0	188.7	69.4	14.1	272.3
BERMUDA	48.3	.0	.0	48.3	.0	9.0	57.4
BRITISH WEST INDIES	1987.2	1946.0	17.7	23.5	.0	2.0	25.5
HONG KONG	1707.6	1092.3	88.6	526.6	61.0	102.3	689.9
LEBANON	7.4	.0	2.4	5.0	1.9	.0	6.9
LIBERIA	227.2	.0	198.1	29.0	.0	.0	29.0
MACAO	84.3	50.6	.8	32.9	.0	.0	32.9
NETHERLANDS ANTILLES	99.4	26.3	44.5	28.6	.0	12.7	41.3
PANAMA	783.1	548.2	68.4	166.5	7.0	23.7	197.2
SINGAPORE	1472.4	1272.0	29.4	170.9	17.4	11.6	195.9
TOTALS	7826.0	5970.2	487.6	1368.0	162.7	178.4	1709.3
INTERNATIONAL & REGIONAL ORGANIZATIONS							
INTERNATIONAL	112.0	.0	.0	112.0	.0	10.0	122.0
LATIN AMERICAN REGIONAL	4.0	.0	.0	4.0	.0	10.0	14.0
W. EUROPEAN REGIONAL	166.0	.0	.0	166.0	.0	30.0	196.0
TOTALS	282.0	.0	.0	282.0	.0	50.0	332.0
**** GRAND **** ** TOTALS **	57284.0	13479.2	2514.4	41290.3	20116.1	2166.4	63572.8

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1544.9	1507.1	16.3	21.4	1517.3	23.2	4.3
CANADA	2353.4	1505.3	67.2	780.7	2060.1	123.7	169.5
FRANCE	2184.3	1870.9	230.3	83.1	1856.8	175.3	152.2
GERMANY, FEDERAL REPUBLIC OF	358.2	191.7	18.9	147.5	274.9	56.8	26.5
ITALY	1401.1	846.4	360.6	194.0	929.2	301.8	170.0
JAPAN	2817.1	2119.3	32.4	665.3	2478.9	310.0	28.2
NETHERLANDS	427.5	135.0	119.0	173.4	242.3	50.4	134.7
SWEDEN	608.4	468.8	72.6	67.0	499.4	44.1	64.9
SWITZERLAND	541.6	444.7	5.5	91.3	403.2	2.8	135.6
UNITED KINGDOM	8385.9	6893.3	413.9	1078.5	7455.8	746.9	183.1
TOTALS	20622.8	15982.9	1337.2	3302.6	17718.3	1835.2	1069.2
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	1289.0	210.2	127.8	950.9	623.7	340.7	324.6
AUSTRIA	307.8	285.2	18.6	4.0	288.1	17.7	2.0
DENMARK	304.5	263.3	25.0	16.2	276.4	12.1	16.0
FINLAND	280.9	254.6	16.1	10.2	253.6	12.2	15.1
GREECE	261.4	30.3	112.4	118.7	98.1	124.3	39.0
ICELAND	24.8	24.8	.0	.0	18.5	5.3	1.0
IRELAND, REPUBLIC OF	214.4	52.7	113.6	48.0	68.9	89.0	56.4
NEW ZEALAND	251.9	25.8	11.7	214.3	141.5	26.9	83.4
NORWAY	371.3	261.4	8.9	101.0	285.0	28.2	58.0
PORTUGAL	241.9	132.9	85.7	23.2	170.3	53.2	18.4
SOUTH AFRICA	738.8	636.0	53.6	49.1	616.2	100.8	21.8
SPAIN	706.8	340.3	114.5	251.9	437.5	135.3	134.0
TURKEY	448.9	144.3	275.2	29.3	243.0	178.4	27.5
OTHER	12.5	5.3	6.6	.6	6.0	6.4	.1
TOTALS	5455.6	2667.6	970.0	1817.9	3527.2	1130.8	797.4
EASTERN EUROPE							
BULGARIA	9.5	5.1	.0	4.4	9.5	.0	.0
CZECHOSLOVAKIA	10.0	10.0	.0	.0	1.0	9.0	.0
GERMAN DEMOCRATIC REPUBLIC	41.2	32.3	.0	8.9	23.2	17.6	.3
HUNGARY	146.4	37.5	108.9	.0	87.0	35.4	24.0
POLAND	87.1	40.4	42.7	4.0	13.2	55.7	18.1
ROMANIA	13.9	3.2	10.7	.0	4.4	8.0	1.5
U.S.S.R.	11.2	3.0	.0	8.2	6.7	4.5	.0
YUGOSLAVIA	426.4	255.7	148.0	22.5	188.5	200.7	37.3
TOTALS	745.9	387.3	310.4	48.1	333.5	331.0	81.3
OPEC MEMBERS							
ALGERIA	238.4	112.3	52.9	73.1	66.6	69.7	102.1
ECUADOR	297.3	13.4	265.3	18.5	130.7	134.8	31.8
GABON	5.6	.0	5.3	.3	4.6	1.0	.0
INDONESIA	377.2	149.8	92.7	134.7	243.5	84.4	49.2

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
IRAN	2.0	.0	.0	2.0	2.0	.0	.0
IRAQ	78.3	37.6	40.7	.0	51.7	26.5	.1
KUWAIT	97.7	82.2	.0	15.5	91.7	6.0	.0
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	187.8	48.1	129.1	10.5	136.6	36.5	14.6
QATAR	.0	.0	.0	.0	.0	.0	.0
SAUDI ARABIA	94.6	31.1	.6	62.8	85.6	8.0	1.0
UNITED ARAB EMIRATES	82.2	60.7	11.3	10.2	66.2	10.0	6.0
VENEZUELA	1722.6	597.4	537.5	587.5	1512.9	204.1	5.5
TOTALS	3184.3	1133.0	1135.7	915.4	2392.7	581.1	210.4
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	1592.0	472.7	751.3	368.0	1035.9	470.3	85.8
BOLIVIA	37.0	7.8	27.6	1.6	36.9	.1	.0
BRAZIL	4108.9	1799.4	1666.7	642.7	1770.7	1462.7	875.4
CHILE	1091.4	579.4	388.6	123.4	488.3	466.9	136.1
COLOMBIA	364.2	241.3	69.0	53.9	281.7	61.2	21.2
COSTA RICA	124.4	12.8	101.5	10.1	45.3	55.0	24.0
DOMINICAN REPUBLIC	64.0	17.9	42.1	4.0	43.7	20.3	.0
EL SALVADOR	6.8	1.6	2.6	2.6	6.8	.0	.0
GUATEMALA	13.8	5.4	2.0	6.4	8.9	4.8	.1
HONDURAS	30.4	7.0	21.4	2.0	20.0	10.2	.2
JAMAICA	18.1	.1	18.0	.0	10.2	7.9	.0
MEXICO	4832.6	852.2	2192.6	1767.7	1716.5	1923.7	1192.3
NICARAGUA	40.5	.0	35.5	5.0	29.2	6.0	5.3
PARAGUAY	3.7	1.4	1.0	1.3	3.7	.0	.0
PERU	442.1	97.2	281.6	63.3	307.7	104.6	29.8
TRINIDAD AND TOBAGO	22.1	.5	21.6	.0	1.5	1.0	19.6
URUGUAY	123.3	8.7	99.1	15.5	68.6	52.7	1.9
OTHER	24.7	10.3	11.2	3.2	16.8	6.9	1.0
TOTALS	12940.5	4116.0	5733.7	3090.8	5892.8	4654.6	2393.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA, MAINLAND	96.6	81.4	6.0	9.1	92.6	2.0	2.0
CHINA, TAIWAN	505.8	240.7	94.1	170.9	326.2	127.0	52.5
INDIA	151.1	72.1	28.4	50.6	100.2	21.2	29.7
ISRAEL	269.4	231.0	33.8	4.6	215.1	46.7	7.6
JORDAN	9.5	4.3	4.1	1.1	5.3	4.2	.0
KOREA, SOUTH	2697.5	1766.3	414.1	517.0	2007.2	520.9	169.3
MALAYSIA	265.6	62.9	130.3	72.4	96.9	72.9	95.6
PAKISTAN	1.7	1.7	.0	.0	1.7	.0	.0
PHILIPPINES	1188.6	261.3	707.0	220.2	893.9	195.4	99.2
SYRIA	3.0	.0	.0	3.0	3.0	.0	.0
THAILAND	514.5	364.0	18.7	131.7	421.8	86.5	6.1
OTHER	76.2	49.9	14.2	12.1	52.0	20.5	3.7

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
TOTALS	5779.0	3135.9	1450.0	1193.0	4216.3	1097.5	465.9
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.8	.0	.0	24.8	6.9	17.9	.0
EGYPT	189.6	173.0	7.2	9.4	125.0	64.6	.0
GHANA	2.0	.0	2.0	.0	1.0	1.0	.0
IVORY COAST	43.6	.3	38.7	4.6	19.0	20.7	3.9
KENYA	.4	.4	.0	.0	.0	.4	.0
MALAWI	4.2	3.8	.4	.0	4.0	.2	.0
MOROCCO	94.6	58.4	31.0	5.2	76.8	17.8	.0
SENEGAL	2.4	.0	2.4	.0	.2	2.1	.1
SUDAN	.7	.4	.3	.0	.7	.0	.0
TUNISIA	6.6	6.0	.6	.0	3.6	.0	3.0
ZAIRE	2.0	.0	2.0	.0	.0	2.0	.0
ZAMBIA	3.9	.1	1.8	2.0	.3	3.5	.0
OTHER	71.8	19.4	42.2	10.1	46.0	22.9	2.9
TOTALS	446.8	262.0	128.6	56.2	283.6	153.2	9.9
OFFSHORE BANKING CENTERS							
BAHAMAS	993.5	885.2	12.0	96.3	983.7	9.1	.6
BAHRAIN	415.4	405.0	7.0	3.4	410.0	5.4	.0
BERMUDA	48.3	6.2	.0	42.1	43.1	5.2	.0
BRITISH WEST INDIES	1987.2	1956.3	14.2	16.7	1955.5	25.7	6.0
HONG KONG	1707.6	1308.8	6.3	392.4	1597.5	77.0	33.0
LEBANON	7.4	4.0	.0	3.4	7.0	.4	.0
LIBERIA	227.2	1.6	5.6	219.9	63.6	99.6	64.1
MACAO	84.3	68.1	.0	16.2	80.8	.0	3.5
NETHERLANDS ANTILLES	99.4	45.2	.0	54.2	67.3	25.1	7.0
PANAMA	783.1	675.6	26.1	81.4	715.5	34.9	32.7
SINGAPORE	1472.6	1362.1	9.0	101.5	1422.8	42.5	7.3
TOTALS	7826.0	6720.3	78.2	1027.3	7346.4	325.5	154.0
INTERNATIONAL & REGIONAL ORGANIZATIONS							
INTERNATIONAL	112.0	.0	112.0	.0	7.0	17.0	88.0
LATIN AMERICAN REGIONAL	4.0	.0	4.0	.0	.0	1.0	3.0
W. EUROPEAN REGIONAL	166.0	.0	166.0	.0	38.0	65.0	63.0
TOTALS	282.0	.0	282.0	.0	45.0	83.0	154.0
**** GRAND **** ** TOTALS **	57284.0	34405.5	11426.9	11451.7	41756.2	10192.3	5335.4

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF		COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
		LETTERS OF CREDIT	OTHER COMM.			
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	64.4	13.3	51.1	7.7	39.5	96.2
CANADA	753.0	101.1	651.9	40.8	34.8	747.0
FRANCE	965.2	159.9	805.3	4.5	77.5	1038.3
GERMANY, FEDERAL REPUBLIC OF	312.4	73.1	239.3	11.8	174.7	475.4
ITALY	146.7	37.2	109.4	3.0	25.0	168.8
JAPAN	741.1	107.3	633.8	6.0	348.1	1083.2
NETHERLANDS	157.7	35.6	122.0	55.8	28.3	130.2
SWEDEN	181.2	2.1	179.1	.1	17.0	198.1
SWITZERLAND	226.2	128.0	98.2	7.9	38.0	256.3
UNITED KINGDOM	1404.4	265.3	1139.0	282.7	229.0	1350.7
TOTALS	4952.8	923.4	4029.4	420.4	1012.2	5544.6
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	830.5	274.6	556.0	9.0	23.6	845.1
AUSTRIA	4.5	.8	3.7	.1	13.0	17.4
DENMARK	23.2	5.1	18.1	.0	23.0	46.2
FINLAND	28.8	26.8	2.0	.0	12.6	41.5
GREECE	41.5	5.8	35.7	.0	2.9	44.4
ICELAND	6.0	.0	6.0	.0	.0	6.0
IRELAND, REPUBLIC OF	55.5	23.6	31.9	7.8	.0	47.7
NEW ZEALAND	168.1	32.6	135.5	.0	5.3	173.4
NORWAY	57.3	4.4	52.8	.1	8.1	65.3
PORTUGAL	97.5	3.8	93.7	70.2	.0	27.3
SOUTH AFRICA	53.2	7.6	45.6	42.1	5.3	16.4
SPAIN	81.1	42.7	38.4	7.0	.0	74.2
TURKEY	65.7	60.6	5.1	15.7	.0	50.0
OTHER	3.3	3.3	.0	.2	1.0	4.1
TOTALS	1516.5	491.8	1024.7	152.2	95.0	1459.3
EASTERN EUROPE						
BULGARIA	.0	.0	.0	.0	.0	.0
CZECHOSLOVAKIA	.0	.0	.0	.0	.0	.0
GERMAN DEMOCRATIC REPUBLIC	23.0	1.0	22.0	.0	5.0	28.0
HUNGARY	.0	.0	.0	.0	.0	.0
POLAND	10.2	9.8	.4	6.6	.0	3.6
ROMANIA	13.2	6.2	7.0	.0	.0	13.2
U.S.S.R.	.0	.0	.0	.0	.0	.0
YUGOSLAVIA	60.9	8.0	52.9	.0	.0	60.9
TOTALS	107.4	25.0	82.3	6.6	5.0	105.8
OPEC MEMBERS						
ALGERIA	24.9	3.9	21.0	.0	.0	26.9
ECUADOR	26.3	15.9	10.4	1.2	.0	25.1
GABON	1.1	.0	1.1	.0	.0	1.1
INDONESIA	148.5	26.6	122.0	16.0	29.7	162.2
IRAN	.0	.0	.0	.0	.0	.0
IRAQ	19.3	3.4	15.9	1.7	.0	17.6

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
KUWAIT	34.2	29.2	5.0	.0	.0	34.2
LIBYA	1.9	1.9	.0	.0	.0	1.9
NIGERIA	45.5	20.8	24.7	11.0	.0	34.5
QATAR	.0	.0	.0	.0	1.0	1.0
SAUDI ARABIA	94.2	37.9	56.2	2.9	.0	91.2
UNITED ARAB EMIRATES	17.6	15.6	2.0	.2	1.5	18.9
VENEZUELA	49.4	45.6	3.8	6.5	.0	42.9
TOTALS	463.2	200.9	262.3	39.5	32.2	455.8
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	195.0	45.6	149.4	11.2	1.2	185.0
BOLIVIA	2.0	2.0	.0	1.5	.0	.5
BRAZIL	177.9	75.1	102.8	88.6	1.4	90.7
CHILE	61.2	35.1	26.1	5.0	.0	56.2
COLOMBIA	54.5	38.4	16.1	1.9	.2	52.8
COSTA RICA	13.4	1.6	11.8	8.2	.0	5.2
DOMINICAN REPUBLIC	7.0	7.0	.0	6.4	.0	.6
EL SALVADOR	2.6	2.6	.0	2.4	.0	.2
GUATEMALA	3.4	3.4	.0	2.4	.0	1.0
HONDURAS	15.2	15.2	.0	15.2	.0	.0
JAMAICA	4.5	4.5	.0	.0	.0	4.5
MEXICO	241.4	182.5	58.9	77.2	.0	164.1
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	1.8	1.8	.0	1.3	.0	.5
PERU	51.6	14.5	37.1	14.8	.0	36.8
TRINIDAD AND TOBAGO	.0	.0	.0	.0	.0	.0
URUGUAY	3.8	3.1	.7	.5	.0	3.3
OTHER	6.8	6.3	.5	3.2	.0	3.6
TOTALS	842.5	438.9	403.6	239.9	2.8	605.3
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	46.0	1.0	45.0	4.0	16.1	58.1
CHINA,TAIWAN	66.8	56.2	10.6	.0	20.3	87.1
INDIA	38.0	24.6	13.4	.0	5.1	43.1
ISRAEL	3.6	3.6	.0	.0	.2	3.8
JORDAN	1.1	1.1	.0	.2	.6	1.5
KOREA, SOUTH	232.0	127.3	104.6	.0	36.3	268.3
MALAYSIA	18.7	.9	17.8	.0	.0	18.7
PAKISTAN	3.0	3.0	.0	2.0	.0	1.0
PHILIPPINES	110.9	32.1	78.8	57.8	1.9	55.0
SYRIA	4.1	4.1	.0	.0	.0	4.1
THAILAND	128.4	74.6	53.8	.2	.2	128.4
OTHER	20.9	14.4	6.5	5.2	2.0	17.7
TOTALS	673.7	343.1	330.5	69.4	82.7	687.1

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	14.6	2.2	12.4	10.7	.0	3.9
EGYPT	57.6	54.6	3.0	6.0	.2	51.8
GHANA	.3	.3	.0	.0	.7	1.0
IVORY COAST	3.2	1.2	2.0	.1	.0	3.1
KENYA	.5	.5	.0	.1	.0	.4
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	.0	.0	.0	.0	.0	.0
SENEGAL	.0	.0	.0	.0	.0	.0
SUDAN	.3	.3	.0	.3	.0	.0
TUNISIA	1.5	.5	1.0	.0	.0	1.5
ZAIRE	.6	.6	.0	.6	.0	.0
ZAMBIA	2.4	2.4	.0	.0	.0	2.4
OTHER	8.5	7.5	1.0	3.2	.0	5.3
TOTALS	89.5	70.1	19.4	21.0	.9	69.4
OFFSHORE BANKING CENTERS						
BAHAMAS	5.0	5.0	.0	.8	4.3	8.5
BAHRAIN	2.0	2.0	.0	1.3	.0	.7
BERMUDA	347.8	266.8	81.0	90.9	11.8	268.6
BRITISH WEST INDIES	8.0	7.5	.5	1.2	.0	6.8
HONG KONG	236.5	190.6	45.8	43.8	11.9	204.5
LEBANON	9.2	9.2	.0	1.3	.6	8.5
LIBERIA	22.4	9.4	13.0	14.2	.0	8.2
MACAO	9.6	1.0	8.6	.6	.0	9.0
NETHERLANDS ANTILLES	30.7	2.2	28.5	10.5	.2	20.4
PANAMA	55.3	46.7	8.6	8.1	.1	47.3
SINGAPORE	66.1	40.8	25.3	22.2	1.1	45.0
TOTALS	792.9	581.5	211.4	195.2	30.0	627.7
INTERNATIONAL & REGIONAL ORGANIZATIONS						
INTERNATIONAL	.0	.0	.0	.0	1.5	1.5
LATIN AMERICAN REGIONAL	.0	.0	.0	.0	9.1	9.1
W. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
TOTALS	.0	.0	.0	.0	10.6	10.6
**** GRAND **** ** TOTALS **	9438.9	3075.1	6363.8	1144.5	1271.5	9565.9

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
GABON	7.4	.0	.0	7.4	.0	.0	7.4
INDONESIA	119.7	.0	10.5	109.1	25.0	11.0	145.1
IRAN	.1	.0	.0	.1	.0	.0	.1
IRAQ	48.0	43.0	.0	5.0	.0	.0	5.0
KUWAIT	83.4	.0	1.0	82.4	46.0	.0	128.4
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	124.6	2.1	26.6	95.9	.0	.0	95.9
QATAR	1.0	.0	.0	1.0	.0	.0	1.0
SAUDI ARABIA	75.9	.0	13.4	62.4	15.0	4.3	81.7
UNITED ARAB EMIRATES	37.3	17.5	.0	19.8	29.0	.0	48.9
VENEZUELA	1248.1	5.1	66.2	1176.8	15.3	4.2	1196.3
TOTALS	2270.2	69.5	144.3	2056.3	130.4	25.6	2212.4
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	922.4	4.2	39.1	879.0	24.2	3.0	906.3
BOLIVIA	27.9	.3	1.5	26.1	.0	.0	26.1
BRAZIL	3282.7	55.5	131.1	3096.0	290.7	23.6	3410.4
CHILE	1322.0	29.7	40.1	1252.0	1.1	7.4	1260.6
COLOMBIA	339.5	10.7	6.5	322.3	9.0	.4	331.7
COSTA RICA	96.5	.6	11.2	84.7	.0	.0	84.7
DOMINICAN REPUBLIC	70.4	1.0	8.7	60.6	.0	.0	60.6
EL SALVADOR	56.7	19.7	8.7	28.3	.0	.5	28.8
GUATEMALA	68.4	23.3	24.9	20.1	.0	.1	20.2
HONDURAS	31.4	7.5	3.6	20.2	.0	.0	20.2
JAMAICA	28.3	.0	11.8	16.5	.0	.0	16.5
MEXICO	6168.5	188.0	485.4	5495.1	358.3	70.7	5924.2
NICARAGUA	9.9	.0	.0	9.9	.0	.0	9.9
PARAGUAY	22.9	.0	.2	22.7	.0	.0	22.7
PERU	332.8	8.6	19.3	304.8	.3	.2	305.4
TRINIDAD AND TOBAGO	7.5	.0	.0	7.5	.0	.0	7.5
URUGUAY	86.3	1.0	8.5	76.7	.0	2.6	79.4
OTHER	52.9	44.0	.2	8.7	3.0	.3	12.0
TOTALS	12927.9	394.3	801.4	11732.1	686.6	109.2	12528.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	52.7	.0	.0	52.7	51.5	.1	104.4
CHINA,TAIWAN	377.4	59.0	.1	318.3	103.3	32.5	454.1
INDIA	28.0	.0	.0	28.0	129.4	1.6	159.0
ISRAEL	345.6	.0	15.6	330.0	11.5	271.0	612.5
JORDAN	32.5	5.0	.0	27.5	39.0	2.0	68.6
KOREA, SOUTH	1442.9	69.4	13.9	1359.6	395.6	136.1	1891.4
MALAYSIA	107.9	1.0	.3	106.6	32.1	3.0	141.7
PAKISTAN	2.8	.0	.5	2.2	.0	.0	2.2
PHILIPPINES	474.5	18.9	22.0	433.5	17.5	7.3	458.3

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1572.3	781.8	6.5	783.9	379.1	35.5	1198.5
CANADA	2446.2	143.5	24.3	2278.2	2472.4	111.2	4861.9
FRANCE	2046.8	439.9	.2	1606.6	2061.5	55.5	3723.7
GERMANY, FEDERAL REPUBLIC OF	527.8	118.2	7.9	401.7	1481.5	168.8	2052.1
ITALY	1375.6	88.3	5.1	1282.1	1381.2	28.8	2692.2
JAPAN	2118.5	117.4	1.8	1999.3	12078.0	535.6	14613.0
NETHERLANDS	485.6	105.4	10.7	369.5	837.5	91.1	1298.2
SWEDEN	1377.1	113.3	.0	1263.8	123.5	36.5	1423.9
SWITZERLAND	437.0	30.6	4.0	402.4	622.3	40.4	1065.2
UNITED KINGDOM	12523.1	8126.6	45.2	4351.2	1829.6	248.2	6429.1
TOTALS	24910.5	10065.4	105.9	14739.2	23267.0	1351.8	39358.1
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	642.4	21.3	31.4	589.7	1082.2	40.0	1712.0
AUSTRIA	300.8	10.0	.0	290.8	169.0	27.4	487.2
DENMARK	250.6	12.0	2.0	236.6	254.3	22.5	513.4
FINLAND	534.0	68.8	.4	464.8	61.1	7.2	533.2
GREECE	147.7	.0	1.0	146.7	5.0	5.0	156.7
ICELAND	16.4	.0	1.1	15.3	5.0	.9	20.4
IRELAND, REPUBLIC OF	139.0	.0	.0	139.0	125.6	6.4	271.1
NEW ZEALAND	142.2	1.1	.2	140.8	101.4	8.1	250.4
NORWAY	389.3	7.0	46.1	336.2	22.5	19.0	377.7
PORTUGAL	237.8	68.5	.3	168.9	129.8	.0	278.8
SOUTH AFRICA	288.5	7.0	35.1	246.4	19.0	17.0	282.4
SPAIN	644.1	60.0	6.0	578.0	296.7	10.5	885.3
TURKEY	216.4	.0	50.6	165.8	3.0	.0	168.8
OTHER	48.8	24.0	4.4	20.4	.0	1.3	21.7
TOTALS	3998.7	279.9	178.7	3540.0	2275.1	164.5	5979.7
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	3.0	.0	.0	3.0	.0	.0	3.0
CZECHOSLOVAKIA	20.1	.0	.0	20.1	.0	.0	20.1
GERMAN DEMOCRATIC REPUBLIC	55.9	.0	1.0	54.9	111.5	.4	166.9
HUNGARY	109.2	5.4	6.3	97.5	.0	1.0	98.5
POLAND	97.6	.0	.0	96.8	8.9	.0	105.8
ROMANIA	15.6	.0	.0	15.6	.0	.0	15.6
U.S.S.R.	2.2	.0	.0	2.2	.0	.0	2.2
YUGOSLAVIA	428.3	17.1	41.0	370.1	.0	8.8	378.9
TOTALS	732.2	23.3	48.3	660.5	120.5	10.2	791.2
OPEC MEMBERS							
ALGERIA	43.5	.0	.0	43.3	.0	1.0	44.3
ECUADOR	481.1	1.8	26.4	452.9	.0	5.1	458.0

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
SYRIA	12.7	.0	.0	12.7	.0	.0	12.7
THAILAND	149.4	6.2	.5	142.7	68.0	.6	211.3
OTHER	101.2	10.3	2.7	88.2	30.9	.3	119.5
TOTALS	3128.2	169.8	55.6	2902.6	878.9	454.6	4236.3
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.3	.0	1.0	23.3	.0	.0	23.3
EGYPT	92.2	47.0	2.8	42.4	7.0	.0	49.4
GHANA	2.1	.0	2.1	.0	.0	.0	.0
IVORY COAST	65.2	.0	3.1	62.1	.0	.0	62.1
KENYA	1.0	.0	1.0	.0	.0	.0	.0
MALAWI	2.2	.0	.0	2.2	.0	.0	2.2
MOROCO	162.7	44.0	.0	118.7	.0	.0	118.7
SENEGAL	2.5	.0	.0	2.5	.0	.0	2.5
SUDAN	5.0	.0	.3	4.7	.0	.0	4.7
TUNISIA	5.0	.0	.0	5.0	.0	.0	5.0
ZAIRE	.6	.0	.5	.1	.0	.0	.1
ZAMBIA	2.4	.0	2.0	.4	.0	.0	.4
OTHER	50.2	7.8	8.7	33.7	.0	.7	34.4
TOTALS	415.7	98.8	21.5	295.3	7.0	.8	303.2
OFFSHORE BANKING CENTERS							
BAHAMAS	3763.3	3646.8	29.2	87.2	15.0	3.5	105.7
BAHRAIN	139.6	60.6	.0	79.0	58.1	.8	137.9
BERMUDA	60.8	3.8	1.2	55.8	.0	6.9	62.7
BRITISH WEST INDIES	4496.2	4379.2	30.0	86.9	34.8	8.0	129.7
HONG KONG	895.4	546.4	34.5	314.4	92.1	3.1	409.7
LEBANON	10.1	.0	.0	10.1	2.5	.0	12.6
LIBERIA	178.0	.0	143.0	35.0	.0	4.9	40.0
MACAO	1.5	1.5	.0	.0	.0	.0	.0
NETHERLANDS ANTILLES	187.6	59.4	77.1	51.0	.0	14.1	65.1
PANAMA	529.4	211.0	162.0	156.4	5.0	6.0	169.4
SINGAPORE	1188.7	1149.3	2.5	36.9	108.6	.0	145.5
TOTALS	11451.1	10058.3	479.7	913.1	316.1	49.4	1278.7
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
ASIAN REGIONAL	1.0	.0	.0	1.0	.0	.0	1.0
INTERNATIONAL	84.7	.0	3.0	81.7	.0	5.0	86.7
LATIN AMERICAN REGIONAL	9.1	.0	.0	9.1	.0	.0	9.1
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	32.0	.0	.0	32.0	3.6	.0	35.6
TOTALS	126.8	.0	3.0	123.8	3.6	5.0	132.4
Grand Totals	59961.7	21159.4	1838.8	36963.4	27685.5	2171.3	66820.3

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1572.3	1460.7	82.9	28.6	1474.1	48.8	49.4
CANADA	2446.2	2042.3	146.2	257.6	2016.0	183.0	247.0
FRANCE	2046.0	1832.2	119.0	95.6	1693.0	223.2	129.7
GERMANY, FEDERAL REPUBLIC OF	527.8	388.7	61.4	77.7	353.6	152.6	21.8
ITALY	1375.6	927.1	290.7	157.7	880.0	324.0	169.9
JAPAN	2118.5	1820.4	7.6	290.7	1784.5	246.6	87.5
NETHERLANDS	505.6	427.6	.0	78.0	386.2	56.9	62.5
SWEDEN	1377.1	1119.2	178.0	79.0	1204.8	30.3	142.0
SWITZERLAND	637.0	548.7	11.1	77.1	591.0	7.1	38.9
UNITED KINGDOM	12523.1	11733.8	193.2	596.0	11733.6	580.4	209.0
TOTALS	24910.5	22081.1	1090.1	1739.2	21918.7	1833.8	1157.9
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	642.3	229.9	28.6	383.8	462.2	64.9	115.3
AUSTRIA	300.8	262.5	20.1	18.1	239.1	31.7	30.0
DENMARK	250.6	181.2	27.7	41.6	193.9	32.9	23.6
FINLAND	534.0	462.5	39.0	32.5	468.7	46.3	19.0
GREECE	147.7	8.3	76.0	63.3	56.2	50.6	40.8
ICELAND	16.4	9.6	4.8	2.2	8.5	6.6	1.3
IRELAND, REPUBLIC OF	139.0	42.3	92.7	4.0	61.9	32.9	44.2
NEW ZEALAND	142.2	25.1	28.9	88.1	76.7	38.2	27.2
NORWAY	389.3	289.9	2.7	96.7	308.5	56.9	23.9
PORTUGAL	237.8	92.2	127.8	17.8	106.4	112.9	18.4
SOUTH AFRICA	288.5	150.3	41.7	96.4	229.8	55.0	3.7
SPAIN	644.1	220.3	146.9	276.8	277.6	274.8	91.6
TURKEY	216.4	35.5	176.3	4.5	79.3	130.5	6.5
OTHER	48.0	27.5	4.5	16.0	34.4	7.0	7.4
TOTALS	3998.7	2037.5	818.1	1143.0	2603.7	941.8	453.1
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	3.0	.0	3.0	.0	3.0	.0	.0
CZECHOSLOVAKIA	20.1	2.0	17.1	1.0	12.6	7.4	.0
GERMAN DEMOCRATIC REPUBLIC	55.9	29.7	24.2	2.0	53.3	2.6	.0
HUNGARY	* 109.2	33.2	73.5	2.4	50.6	39.9	18.6
POLAND	97.6	22.7	68.9	6.0	40.1	40.3	17.0
ROMANIA	15.6	3.9	11.7	.0	1.6	14.0	.0
U.S.S.R.	2.2	.2	2.0	.0	2.1	.1	.0
YUGOSLAVIA	428.3	188.1	182.1	58.1	148.6	230.2	49.6
TOTALS	732.2	279.9	382.7	69.5	320.2	334.8	77.1
OPEC MEMBERS							
ALGERIA	43.3	11.9	30.0	1.4	10.5	21.7	11.2
ECUADOR	481.1	35.0	378.1	67.9	171.3	247.6	62.1
GABON	7.4	.0	7.4	.0	6.1	1.1	.1

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
INDONESIA	119.7	13.0	53.3	53.4	51.8	41.5	26.2
IRAN	.1	.0	.0	.1	.1	.0	.0
IRAQ	48.0	48.0	.0	.0	38.0	10.0	.0
KUWAIT	83.4	62.7	.0	20.6	74.2	9.2	.0
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	124.6	9.7	105.7	9.2	60.5	60.0	4.1
QATAR	1.0	.0	.0	1.0	.0	.0	1.0
SAUDI ARABIA	75.9	12.7	3.4	59.7	66.4	9.5	.0
UNITED ARAB EMIRATES	37.3	28.3	.0	9.0	34.1	.2	3.0
VENEZUELA	1248.1	324.3	457.4	466.3	1024.5	181.3	42.1
TOTALS	2270.2	565.8	1035.5	668.6	1537.6	502.4	150.0
NNON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	922.4	257.8	486.8	177.7	559.2	321.3	41.8
BOLIVIA	27.9	5.9	8.1	13.8	18.0	6.9	3.0
BRAZIL	3282.7	1465.3	1393.8	423.5	1289.6	1284.9	708.1
CHILE	1322.0	779.8	391.0	151.0	376.0	697.4	248.5
COLOMBIA	339.5	108.0	135.0	96.4	189.2	116.7	33.5
COSTA RICA	96.5	6.9	77.7	11.8	43.5	40.5	12.5
DOMINICAN REPUBLIC	70.4	1.9	40.7	27.7	44.3	16.3	9.7
EL SALVADOR	56.7	45.5	9.0	2.0	33.1	23.5	.0
GUATEMALA	68.4	26.9	32.5	9.0	39.5	28.7	.2
HONDURAS	31.4	13.6	9.2	8.5	23.1	7.2	1.0
JAMAICA	28.3	.5	25.7	2.1	16.4	11.9	.0
MEXICO	6168.6	1075.0	3037.4	2056.1	1895.8	2205.5	2067.3
NICARAGUA	9.9	.0	9.9	.0	6.2	.9	2.8
PARAGUAY	22.9	4.9	12.3	5.6	17.3	5.6	.0
PERU	332.8	57.9	238.0	36.8	216.7	90.5	25.4
TRINIDAD AND TOBAGO	7.5	.0	7.5	.0	1.0	6.2	.2
URUGUAY	86.3	9.0	48.0	29.2	43.8	36.1	6.3
OTHER	52.9	44.0	8.0	.9	51.9	1.0	.0
TOTALS	12927.9	3903.4	5971.3	3053.1	4865.3	4901.8	3160.7
NNON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	52.7	36.6	9.0	7.1	39.6	7.6	5.4
CHINA,TAIWAN	377.4	202.1	74.4	100.8	274.8	63.1	39.4
INDIA	28.0	14.8	6.1	7.1	17.1	7.9	2.9
ISRAEL	345.6	136.0	157.5	52.1	154.9	159.8	30.8
JORDAN	32.5	32.5	.0	.0	32.5	.0	.0
KOREA, SOUTH	1442.9	1042.7	276.3	123.9	939.6	396.5	106.7
MALAYSIA	107.9	23.5	60.1	24.3	17.6	62.2	28.0
PAKISTAN	2.8	1.0	1.2	.5	2.1	.7	.0
PHILIPPINES	474.5	150.9	244.4	79.1	275.4	160.2	38.8
SYRIA	12.7	9.0	3.7	.0	12.7	.0	.0
THAILAND	149.4	120.4	3.5	25.4	136.2	10.5	2.5

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TOTAL ADJUSTED CLAIMS ON FOREIGN BORROWERS
OF 24 LARGE U.S. BANK LENDERS
(Dollars in Millions)

Organizations	Total Adjusted Claims 1/
9 Largest	$187,540.5
Next 15	63,572.8
Total	$251,113.3

As of 9-30-85

1/ Claims are adjusted to reflect guarantees by parties in other countries, including the United States.

Source: Federal Reserve Board

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	101.2	53.7	21.4	26.1	58.5	30.4	12.3
TOTALS	3128.2	1823.5	858.1	446.6	1961.6	899.3	267.2
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.3	.8	4.0	19.5	3.6	20.6	.0
EGYPT	92.2	80.6	4.5	7.1	64.6	27.5	.0
GHANA	2.1	.0	2.1	.0	.4	1.7	.0
IVORY COAST	65.2	.5	55.2	9.5	16.8	40.5	7.9
KENYA	1.0	.0	.0	1.0	1.0	.0	.0
MALAWI	2.2	.0	2.2	.0	1.0	1.1	.0
MOROCO	162.7	119.0	37.7	6.0	80.4	80.3	2.0
SENEGAL	2.5	.0	2.5	.0	.0	2.4	.0
SUDAN	5.0	.0	2.7	2.3	4.2	.3	.5
TUNISIA	5.0	5.0	.0	.0	2.2	2.8	.0
ZAIRE	.6	.0	.6	.0	.3	.3	.0
ZAMBIA	2.4	.0	.3	2.1	.8	1.6	.0
OTHER	50.2	9.3	31.4	9.4	21.6	22.0	6.5
TOTALS	415.7	215.2	143.5	56.9	197.4	201.3	16.9
OFFSHORE BANKING CENTERS							
BAHAMAS	3763.3	3721.9	8.8	32.4	3708.0	25.1	30.1
BAHRAIN	139.6	139.6	.0	.0	139.6	.0	.0
BERMUDA	60.8	37.3	.0	23.5	42.9	14.9	3.0
BRITISH WEST INDIES	4496.2	4452.6	26.5	17.0	4447.7	37.1	11.4
HONG KONG	895.4	754.5	.4	140.4	861.6	23.2	10.6
LEBANON	10.1	1.8	1.3	7.0	10.1	.0	.0
LIBERIA	178.0	2.8	5.7	169.5	79.1	80.6	18.3
MACAO	1.5	1.5	.0	.0	1.5	.0	.0
NETHERLANDS ANTILLES	187.6	76.0	10.6	101.0	94.4	59.3	33.8
PANAMA	529.4	228.7	104.0	196.7	344.4	132.8	52.2
SINGAPORE	1188.7	1177.2	2.5	9.0	1178.7	10.0	.0
TOTALS	11451.1	10594.4	159.9	696.7	10908.4	383.2	159.4
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
ASIAN REGIONAL	1.0	.0	1.0	.0	1.0	.0	.0
INTERNATIONAL	84.7	.0	84.7	.0	4.0	59.5	21.2
LATIN AMERICAN REGIONAL	9.1	.0	9.1	.0	.0	.0	9.1
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	32.0	.0	32.0	.0	13.0	16.0	3.0
TOTALS	126.8	.0	126.8	.0	18.0	75.5	33.3
**** GRAND **** ** TOTALS **	59961.7	41501.2	10586.3	7874.2	44331.3	10154.3	5476.0

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF		COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTME FOR GUARANTEE
		LETTERS OF CREDIT	OTHER COMM.			
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	174.9	84.6	90.3	11.0	7.0	170.9
CANADA	275.8	77.9	197.9	7.9	67.2	335.1
FRANCE	377.7	105.6	272.1	.8	58.0	434.9
GERMANY, FEDERAL REPUBLIC OF	149.8	76.0	73.8	.0	40.7	190.5
ITALY	176.4	5.1	171.3	.0	6.2	182.7
JAPAN	702.0	116.3	585.7	4.3	327.3	1025.0
NETHERLANDS	95.1	33.1	62.0	.0	28.6	123.7
SWEDEN	266.7	.1	266.6	.0	7.0	273.7
SWITZERLAND	71.3	29.9	41.3	3.1	8.8	77.1
UNITED KINGDOM	600.6	278.2	322.4	3.6	235.4	832.3
TOTALS	2890.8	807.3	2083.4	30.8	786.5	3646.4
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	183.5	92.6	90.9	1.1	49.3	231.7
AUSTRIA	29.3	7.3	22.0	.0	10.3	39.6
DENMARK	89.8	20.8	69.0	.0	15.0	104.8
FINLAND	53.1	2.1	51.0	.0	.0	53.1
GREECE	28.3	.0	28.3	.0	.0	28.3
ICELAND	.0	.0	.0	.0	.0	.0
IRELAND, REPUBLIC OF	3.1	1.1	2.0	.7	.0	2.4
NEW ZEALAND	34.8	3.1	31.7	.0	3.4	38.2
NORWAY	23.3	10.5	12.8	4.0	1.1	20.4
PORTUGAL	22.0	8.2	13.8	.0	.0	22.0
SOUTH AFRICA	11.4	7.3	4.1	4.1	1.2	8.5
SPAIN	128.7	30.2	98.5	2.2	3.0	129.5
TURKEY	23.7	6.6	17.1	10.6	.0	13.1
OTHER	.5	.5	.0	.0	.0	.5
TOTALS	632.0	190.8	441.2	22.7	83.3	692.6
EASTERN EUROPE						
ALBANIA	.0	.0	.0	.0	.0	.0
BULGARIA	10.0	10.0	.0	.0	.0	10.0
CZECHOSLOVAKIA	.0	.0	.0	.0	.0	.0
GERMAN DEMOCRATIC REPUBLIC	3.9	.3	3.6	.0	.0	3.9
HUNGARY	38.1	15.0	23.1	16.9	.0	21.2
POLAND	2.0	.0	2.0	.0	.0	2.0
ROMANIA	.1	.1	.0	.0	.0	.1
U.S.S.R.	10.0	.0	10.0	.0	.0	10.0
YUGOSLAVIA	17.5	3.0	14.5	8.3	.5	9.7
TOTALS	81.6	28.4	53.2	25.2	.5	56.9
OPEC MEMBERS						
ALGERIA	6.7	.0	6.7	.0	.0	6.7
ECUADOR	75.8	42.4	33.3	12.0	1.4	65.1
GABON	3.0	1.0	2.0	.0	.0	3.0
INDONESIA	86.6	49.3	37.3	43.0	12.7	56.3
IRAN	.0	.0	.0	.0	.0	.0

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
IRAQ	30.0	20.0	10.0	10.0	.0	20.0
KUWAIT	28.4	10.3	18.0	2.0	.1	26.5
LIBYA	5.0	1.0	4.0	.0	.0	5.0
NIGERIA	18.6	12.3	6.2	6.2	.0	12.3
QATAR	1.1	.1	1.0	.0	.0	1.1
SAUDI ARABIA	51.3	19.9	31.4	1.5	4.2	54.0
UNITED ARAB EMIRATES	.8	.8	.0	.0	.3	1.1
VENEZUELA	40.8	38.8	2.0	13.0	.3	28.1
TOTALS	348.5	196.4	152.0	87.8	19.0	279.6
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	52.2	24.2	27.9	5.5	.0	46.7
BOLIVIA	15.8	10.8	5.0	.0	.0	15.8
BRAZIL	141.1	41.6	99.5	36.7	.0	104.4
CHILE	49.6	27.9	21.7	5.0	.1	44.7
COLOMBIA	25.3	22.6	2.7	.0	.0	25.3
COSTA RICA	33.9	10.3	23.6	30.0	.0	3.9
DOMINICAN REPUBLIC	2.2	2.2	.0	.0	.0	2.1
EL SALVADOR	81.8	72.4	9.4	36.1	.0	45.7
GUATEMALA	34.8	26.7	8.1	14.8	.0	20.0
HONDURAS	26.8	26.8	.0	13.3	.0	13.4
JAMAICA	6.7	5.5	1.2	2.1	.0	4.6
MEXICO	193.8	146.0	47.8	28.2	4.2	169.8
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	.0	.0	.0	.0	.0	.0
PERU	28.4	25.0	3.3	7.6	.0	20.7
TRINIDAD AND TOBAGO	9.0	.0	9.0	9.0	.0	.0
URUGUAY	.7	.4	.3	.1	.0	.6
OTHER	2.6	2.6	.0	1.6	.0	1.0
TOTALS	705.4	445.6	259.8	190.3	4.3	519.3
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	1.5	.4	1.1	.0	.2	1.7
CHINA,TAIWAN	103.6	51.0	52.5	.0	.0	103.6
INDIA	19.6	17.4	2.2	.0	2.0	21.6
ISRAEL	38.2	32.0	6.2	11.1	10.0	37.1
JORDAN	8.5	1.5	7.0	.0	.0	8.5
KOREA, SOUTH	182.4	74.2	108.1	7.0	10.9	186.3
MALAYSIA	5.0	.0	5.0	.0	.0	5.0
PAKISTAN	3.1	1.1	2.0	.0	.0	3.1
PHILIPPINES	104.1	67.4	36.6	1.0	2.0	105.1
SYRIA	2.4	2.4	.0	.0	.0	2.4
THAILAND	39.5	10.0	29.5	.0	2.3	41.8
OTHER	7.4	7.1	.3	.3	.0	7.1
TOTALS	515.7	265.0	250.7	19.4	27.4	523.7

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	1.3	1.3	.0	.0	.0	1.3
EGYPT	64.9	63.1	1.8	6.0	.0	58.9
GHANA	.0	.0	.0	.0	.0	.0
IVORY COAST	6.5	3.4	3.1	.0	.0	6.5
KENYA	.0	.0	.0	.0	.0	.0
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	40.0	39.0	1.0	.0	.0	40.0
SENEGAL	.0	.0	.0	.0	.0	.0
SUDAN	23.0	23.0	.0	.0	.0	23.0
TUNISIA	.0	.0	.0	.0	.0	.0
ZAIRE	.0	.0	.0	.0	.0	.0
ZAMBIA	.0	.0	.0	.0	.0	.0
OTHER	151.0	134.8	16.2	59.0	.2	92.2
TOTALS	286.9	264.7	22.1	65.0	.2	222.1
OFFSHORE BANKING CENTERS						
BAHAMAS	30.0	23.7	6.3	17.7	.0	12.3
BAHRAIN	17.0	17.0	.0	.0	.0	17.0
BERMUDA	276.9	268.6	8.3	147.2	5.4	135.1
BRITISH WEST INDIES	7.2	6.7	.5	4.1	1.0	4.0
HONG KONG	118.2	96.9	21.3	32.3	1.6	87.5
LEBANON	14.9	5.0	9.9	.0	.2	15.2
LIBERIA	5.4	2.1	3.3	2.7	.0	2.7
MACAO	.0	.0	.0	.0	.0	.0
NETHERLANDS ANTILLES	50.0	24.9	25.1	35.9	3.0	17.1
PANAMA	75.6	66.6	9.0	34.4	1.0	42.2
SINGAPORE	65.1	50.1	15.0	49.0	.0	16.1
TOTALS	660.8	562.0	98.7	323.3	12.3	349.7
INTERNATIONAL & REGIONAL ORGANIZATIONS						
AFRICAN REGIONAL	1.1	.0	1.1	.0	.0	1.1
ASIAN REGIONAL	.0	.0	.0	.0	.0	.0
INTERNATIONAL	.0	.0	.0	.0	.0	.0
LATIN AMERICAN REGIONAL	2.1	2.1	.0	.0	1.6	3.8
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
TOTALS	3.2	2.1	1.1	.0	1.7	5.0
**** GRAND **** ** TOTALS **	6125.2	2762.5	3362.7	764.9	935.3	6295.7

1/ All data are on a fully consolidated basis and cover 197 U.S. banking organizations.

2/ The data in the table cover only cross-border and non-local currency lending. These result from a U.S. bank's office in one country lending to residents of another country or lending in a currency other than that of the borrower's country.

3/ In addition to the lending covered in the tables, banks reported $95.8 billion in local currency loans and other claims and $68.0 billion in local currency liabilities held by their foreign offices on residents of the country in which the office was located (e.g., Deutsche Mark loans to German residents booked at the German branch of the reporting U.S. bank). These types of local currency assets are excluded from the data in the tables.

4/ These columns show the amount owed to U.S. banks by borrowers residing in one country that is guaranteed by residents of another country. The guarantor can be a government entity, a bank, or a private non-bank entity. Amounts owed U.S. banks by a branch in the reported country, where the head office of the borrowing bank is outside the reported country, are treated as being guaranteed and are included in column 2.

5/ Includes amounts borrowed by the foreign branches of banks headquartered in the reported country. Also, includes guarantees and similar instruments issued by the reported country's banks that cover repayment of borrowing by non-residents.

6/ Amount guaranteed by non-bank entities in the reported country that cover amounts owed U.S. banks by borrowers located outside of the reported country (e.g., a guarantee issued by a German company to cover a U.S. bank borrowing by its Belgian subsidiary would be reported in this column on the German country line).

The total capital of the reporting banks, including equity, subordinated debentures, and reserves for loan losses is: all reporting banks $101.9 billion; nine money center banks $40.7 billion; fifteen other large banks $20.0 billion; and all other reporting banks $41.2 billion.

The total assets of the reporting banks are: all reporting banks, $1,470 billion; nine money center banks, $616 billion; fifteen other large banks $279 billion; and all other reporting banks $575 billion.

EXPOSURES OF THE TOP 24 U.S. INTERNATIONAL LENDERS TO SELECTED LDCs (1)
(as of 9/30/85 - Millions of $)

	Argentina	Brazil	Chile	Mexico	Nigeria	Philippines	Venezuela
Citicorp		3,339		2,822		1,386	
BankAmerica Corp.		2,674		2,730			1,458
Chase Manhattan Corp.	825	2,595		1,673			1,271
Manufacturers Hanover Corp.	1,345	1,969	688	1,672			1,015
Chemical NY Corp.		1,448		1,458			720
J.P. Morgan Co., Inc.	808	1,959		1,160			
Bankers Trust N.Y. Corp.		858		1,271			
First Chicago Corp.		816		885			
Continental Illinois Corp.	364	466		561			320
First Interstate Bankcorp		530		741			
Mellon National Corp.		497		461			
Irving Bank Corp.	232	384		363			462
Security Pacific Corp.		572		520			
Wells Fargo Co.		580		518			268
Marine Midland Banks		657		362			301
Bank of New York		272		256			
RepublicBank		248		270			
Texas Commerce Bancshares				301			
Bank of Boston	327	214					
InterFirst Corp.				249			
Republic N.Y. Corp.	152	181		262			
NBD Bancorp				184			
Crocker National Corp.							
First City Bancorp				163			

(1) As reported on the publicly available "Country Exposure Information Report" (FFIEC 009a) for 9/30/85. Banks report their exposure to individual countries on a confidential basis and, except for those exposures which exceed the lesser of 1 percent of total assets or 20 percent of primary capital, they are not subject to public disclosure. The absence of an amount in any column indicates that the bank's outstandings to that country (if any) do not meet the threshold for disclosure.

Reported amounts are claims outstanding (excluding local currency claims), after adjustment for third country guarantees.

Source: Federal Reserve Board and Comptroller of the Currency

DEBT RESCHEDULINGS SINCE 1980

ARGENTINA

August 1985	- Rescheduling of $9.9 billion in 1982-85 public sector maturities. (Terms: 10 years with 3 years grace)
	- Rescheduling of $3.5 billion in 1984-85 private sector maturities through the issuance of government promissory notes. Notes are used to either repay the private debt, resulting in a public sector obligation or guarantee the private sector obligation. (Terms: 10 years with 3 years grace)
November 1982	- Rescheduling of $5 billion in 1982-83 private sector maturities through the issuance of government promissory notes or bonds. Notes and bonds were used in the same manner as above. (Terms: 5 years with 3 years grace)

BRAZIL

March 1986	- Agreement in principle reached to reschedule $6.1 billion in 1985 public and private sector maturities. $9.7 billion in 1986 maturities will be extended for one year and included in an anticipated multi-year rescheduling in early 1987. The signing of this refinancing is expected by mid-year. (Terms: 7 years with 5 years grace)
January 1984	- Rescheduling of $5 billion in 1984 public and private sector maturities. (Terms: 9 years with 5 years grace)
February 1983	- Rescheduling of $4.9 billion in 1983 public and private sector maturities. (Terms: 8 years with 2 1/2 years grace)

CHILE

November 1985	- Rescheduling of $6 billion 1985-87 public and private sector maturities. (Terms: 12 years with 6 years grace)
July 1983	- Rescheduling of $3.4 billion in 1983-84 public and private sector maturities. (Terms: 8 years with 4 years grace)

MEXICO

March/August 1985 - Rescheduling of $43.7 billion in 1985-90 public sector maturities. Includes $23.6 billion in 1987-90 public sector maturities previously rescheduled in August 1983. (Terms: 14 years with 1 year grace)

August 1983 - Rescheduling of $23.6 billion in August 1982 to December 1984 public sector maturities. (Terms: 8 years with 4 years grace)

May 1983 - Under an institution established by the Government (FICORCA), approximately $12 billion of a total $18 billion in private sector debt has been registered. FICORCA provides foreign exchange at preferential rates to facilitate debt servicing in the private sector, assuming the borrower reaches a rescheduling agreement with its creditor banks. (Terms: 6-8 years with 3-4 years grace)

NIGERIA

July/September 1983 - Rescheduling of $1.8 billion in short-term trade transactions. (Terms: 3 years with 6 months grace)

PHILIPPINES

May 1985 - Rescheduling of $5.8 billion in October 1983 to December 1986 public and private sector maturities. (Terms: 10 years with 5 years grace)

VENEZUELA

February 1986 - Rescheduling of $20 billion in 1983-88 public sector maturities. (Terms: 12 1/2 years with no grace)

In Process - Since early 1984, approximately $7 billion in private sector debt has been registered with RECADI, qualifying for preferential exchange to service debt. This is conditioned on a rescheduling agreement between the borrower and creditor bank. (Terms: 7 years with 2 years grace)

Source: IMF data, summarized and updated by OCC.

Federal Financial Institutions Examination Council

Statistical Release

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COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985 1/
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/ 3/
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES BORROWINGS OF BANKS	BORROWINGS OF NONBANKS	TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS ~~FOR~~ GUARANTEES AND EXTERNAL BORROWING
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	8025.8	2617.8	137.7	5270.2	951.7	1302.6	7524.6
CANADA	10336.9	545.9	476.0	9514.9	4231.1	576.2	14322.2
FRANCE	9930.1	1248.4	98.9	8582.7	5216.0	815.6	14614.5
GERMANY, FEDERAL REPUBLIC OF	4525.8	276.8	298.3	3950.6	3096.1	795.5	7842.3
ITALY	8674.1	434.9	113.8	8125.4	4796.9	486.4	13408.8
JAPAN	14533.2	583.2	196.2	13753.8	34116.6	1761.7	49632.1
NETHERLANDS	2627.0	374.1	359.9	1892.9	1572.0	427.6	3892.6
SWEDEN	3038.1	196.3	22.4	2819.4	235.5	154.8	3209.8
SWITZERLAND	3812.3	169.2	301.9	3341.2	892.7	609.5	4843.5
UNITED KINGDOM	39824.8	20461.5	2548.0	16815.2	3700.4	4162.0	24677.7
TOTALS	105528.6	26908.5	4553.3	74066.8	58809.4	11092.3	143968.6
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	5607.7	108.6	390.5	5108.5	1732.5	513.5	7354.6
AUSTRIA	1576.6	20.0	17.0	1539.6	396.1	93.8	2029.5
DENMARK	2869.7	6.0	68.6	2795.1	463.3	269.3	3527.7
FINLAND	1643.9	27.5	87.0	1529.4	287.5	70.6	1887.7
GREECE	2812.3	37.2	174.7	2600.3	23.0	193.4	2816.8
ICELAND	246.6	.0	29.4	217.2	.0	9.0	226.2
IRELAND, REPUBLIC OF	1207.1	47.0	34.4	1125.7	466.2	117.6	1709.5
NEW ZEALAND	1165.7	9.5	66.3	1089.9	193.2	41.7	1324.8
NORWAY	2990.5	20.0	328.7	2641.8	111.8	397.5	3151.2
PORTUGAL	1246.3	115.0	57.9	1073.3	375.7	16.0	1465.1
SOUTH AFRICA	3240.5	29.5	168.4	3042.6	105.6	124.6	3273.0
SPAIN	3513.0	167.9	278.1	3066.9	566.4	79.4	3712.8
TURKEY	2106.2	17.2	233.1	1855.9	1.0	18.1	1875.0
OTHER	184.6	.0	77.0	107.6	39.8	19.3	166.7
TOTALS	30411.4	605.6	2011.2	27794.4	4762.6	1964.0	34521.1
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	5.0	.0	5.0
BULGARIA	114.0	.0	.0	114.0	.0	.0	114.0
CZECHOSLOVAKIA	106.5	6.6	8.0	91.9	.0	8.0	99.9
GERMAN DEMOCRATIC REPUBLIC	309.5	.0	1.0	308.5	121.6	10.4	440.5
HUNGARY	606.1	11.0	22.4	572.7	.0	1.0	573.7
POLAND	550.4	12.9	10.1	527.4	.0	.0	527.4
ROMANIA	158.7	.0	1.0	157.7	.0	2.9	160.6
U.S.S.R.	114.0	4.2	25.1	84.7	9.0	.0	93.7
YUGOSLAVIA	2398.2	79.2	131.2	2187.7	3.0	43.4	2234.1
TOTALS	4357.7	113.9	198.8	4044.9	138.6	65.7	4249.2
OPEC MEMBERS							
ALGERIA	829.4	3.0	89.2	737.2	3.2	67.0	807.4
ECUADOR	2142.6	2.6	188.3	1951.6	4.0	.0	1955.6
GABON	51.7	.0	11.9	39.8	.0	15.0	54.8

COUNTRY EXPOSURE LENDING SURVEY, DECEMBER 1985 1/
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/ 3/
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
INDONESIA	2747.5	21.1	464.0	2262.3	115.9	129.9	2508.2
IRAN	14.5	.0	3.0	11.5	.0	.0	11.5
IRAQ	556.9	317.1	59.4	180.4	.0	30.0	210.4
KUWAIT	930.4	29.0	48.1	853.3	299.9	23.0	1176.2
LIBYA	56.1	.0	25.1	31.0	.0	.0	31.0
NIGERIA	1198.6	64.4	234.2	899.9	.0	22.0	921.9
QATAR	21.8	.0	9.7	12.1	19.0	.0	31.1
SAUDI ARABIA	1617.9	28.0	227.0	1362.9	301.2	167.8	1832.0
UNITED ARAB EMIRATES	569.5	26.4	53.2	489.9	148.7	8.3	646.9
VENEZUELA	10090.5	18.4	458.2	9613.9	169.3	3.3	9786.6
TOTALS	20827.8	510.0	1871.5	18446.3	1061.3	466.4	19974.1
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	8410.6	15.8	971.1	7423.7	814.5	497.8	8736.0
BOLIVIA	112.7	3.5	9.8	99.4	2.0	2.0	103.4
BRAZIL	22795.7	508.1	1269.7	21017.7	2046.2	508.2	23572.2
CHILE	6569.1	191.3	235.3	6142.5	14.0	92.0	6248.6
COLOMBIA	2625.4	133.1	55.4	2436.8	91.1	7.0	2534.9
COSTA RICA	450.8	2.0	27.7	421.0	.0	.0	421.0
DOMINICAN REPUBLIC	485.2	9.1	49.3	426.7	.0	.0	426.7
EL SALVADOR	101.5	37.1	15.7	48.7	.0	.1	48.8
GUATEMALA	141.6	33.2	40.5	67.9	.0	.1	68.0
HONDURAS	140.3	11.1	31.8	97.3	.0	0	97.3
JAMAICA	260.7	.4	102.1	158.2	.0	.0	158.2
MEXICO	24934.3	280.7	1848.6	22804.9	1090.3	544.9	24440.2
NICARAGUA	90.7	.0	1.0	89.7	.0	.0	89.7
PARAGUAY	171.8	.1	1.7	170.0	.0	1.0	171.0
PERU	1654.3	31.7	138.8	1483.8	16.3	7.0	1507.1
TRINIDAD AND TOBAGO	145.2	.0	26.7	118.5	.0	2.4	120.9
URUGUAY	912.7	.5	30.1	882.1	.0	.0	882.1
OTHER	157.9	78.2	27.0	52.7	3.0	1.4	57.2
TOTALS	70161.3	1336.1	4882.7	63942.4	4077.5	1664.0	69684.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	572.8	.0	.0	572.8	326.9	85.6	985.4
CHINA,TAIWAN	1913.6	18.1	64.8	1830.7	156.4	158.2	2145.3
INDIA	935.3	10.1	15.3	909.9	431.7	26.7	1368.4
ISRAEL	1725.1	71.5	88.6	1565.0	212.3	345.5	2122.8
JORDAN	166.4	.0	22.7	143.7	156.3	13.0	313.0
KOREA, SOUTH	9164.9	702.9	202.5	8259.4	1022.3	648.9	9930.8
MALAYSIA	1087.3	7.5	60.1	1019.6	166.0	68.2	1253.9
PAKISTAN	262.9	1.4	1.2	260.2	52.0	12.3	324.5
PHILIPPINES	5418.4	163.4	287.0	4967.8	125.4	14.5	5107.8
SYRIA	31.6	.0	3.0	28.6	.0	1.0	29.6
THAILAND	1876.7	48.7	41.7	1786.3	374.7	13.7	2174.7

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985 1/
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/ 3/
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	943.1	60.1	182.7	700.2	7.1	3.3	710.6
TOTALS	24098.6	1083.8	969.7	22044.9	3031.3	1391.1	26467.4
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	219.8	.0	85.3	134.5	.0	.0	134.5
EGYPT	995.8	225.9	124.4	645.5	44.2	4.7	694.4
GHANA	14.8	.0	7.8	7.0	.0	1.0	8.0
IVORY COAST	357.7	1.0	9.6	347.1	.0	22.0	369.1
KENYA	107.0	.0	12.3	94.7	.0	.0	94.7
MALAWI	60.6	.0	3.0	57.6	3.0	1.0	61.6
MOROCO	904.7	54.7	14.2	835.8	12.0	14.9	862.7
SENEGAL	51.6	.0	.0	51.6	.0	.0	51.6
SUDAN	67.2	.1	3.8	63.3	.0	.0	63.3
TUNISIA	261.4	14.4	70.1	176.9	.0	5.0	181.9
ZAIRE	29.8	.0	22.0	7.8	.0	.0	7.8
ZAMBIA	101.0	.0	31.0	70.0	4.0	.0	74.0
OTHER	753.8	13.2	214.9	525.7	.0	18.3	544.1
TOTALS	3925.8	309.3	598.4	3018.0	63.2	66.9	3148.2
OFFSHORE BANKING CENTERS							
BAHAMAS	5361.4	4585.9	246.2	529.3	42.0	39.5	610.9
BAHRAIN	1269.0	652.3	53.1	563.6	152.6	16.3	732.5
BERMUDA	594.4	5.0	231.4	358.0	.1	54.2	412.3
BRITISH WEST INDIES	8332.8	8118.4	87.5	126.8	6.5	48.4	181.7
HONG KONG	6529.7	3046.4	912.9	2570.3	228.1	527.8	3326.2
LEBANON	113.6	1.0	29.4	83.2	22.4	5.0	110.6
LIBERIA	1450.9	.2	1384.1	66.6	.0	4.9	71.5
MACAO	286.2	153.7	3.5	129.0	.0	4.3	133.3
NETHERLANDS ANTILLES	980.8	201.4	476.0	303.3	31.0	35.3	369.6
PANAMA	3001.9	920.0	1137.8	944.0	14.0	93.7	1051.7
SINGAPORE	6255.2	4666.8	307.8	1280.6	159.8	201.4	1641.9
TOTALS	34176.5	22351.4	4870.1	6955.0	656.6	1030.9	8642.6
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.5	.0	.0	.5	.0	.0	.5
ASIAN REGIONAL	4.0	.0	.0	4.0	.0	1.0	5.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	485.6	.0	2.0	483.6	5.0	17.0	505.6
LATIN AMERICAN REGIONAL	56.1	.0	.0	56.1	.0	13.0	69.1
MIDDLE EASTERN REGIONAL	59.0	.0	.0	59.0	.0	.0	59.0
W. EUROPEAN REGIONAL	453.5	.0	.0	453.5	.0	28.0	481.5
TOTALS	1058.7	.0	2.0	1056.7	5.0	59.0	1120.7
GRAND TOTALS	294546.6	53218.8	19958.1	221369.7	72605.8	17800.6	311776.2

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS- DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	8025.8	6813.3	529.4	683.0	7362.1	320.5	343.1
CANADA	10536.9	5353.8	485.1	4697.9	6830.2	1606.9	2099.7
FRANCE	9930.1	7057.1	1652.9	1220.0	7756.7	1231.3	942.0
GERMANY, FEDERAL REPUBLIC OF	4525.8	2064.3	515.9	1945.5	2859.4	1347.3	319.0
ITALY	8674.1	5065.8	2589.2	1019.0	5523.7	1940.2	1210.1
JAPAN	14533.2	8425.5	149.2	5958.4	11507.4	2428.0	597.8
NETHERLANDS	2627.0	1155.4	218.7	1252.9	1961.4	298.5	367.0
SWEDEN	3038.1	1974.7	481.4	581.9	2404.8	344.7	288.6
SWITZERLAND	3812.3	1649.3	158.6	2004.3	3106.7	255.1	450.5
UNITED KINGDOM	39824.8	28989.8	1220.1	9614.8	34678.1	3094.1	2052.5
TOTALS	105528.6	68549.4	8000.9	28978.2	83990.9	12867.0	8670.6
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	5607.7	846.0	487.7	4274.3	3008.0	1447.1	1152.5
AUSTRIA	1576.6	1146.6	314.0	116.0	1285.4	168.7	122.5
DENMARK	2869.7	1183.0	255.7	1431.0	1966.6	674.1	228.9
FINLAND	1643.9	930.0	297.3	416.6	1141.8	366.4	135.7
GREECE	2812.3	162.6	929.0	1720.6	1006.2	1220.8	585.2
ICELAND	246.6	55.3	111.6	79.7	123.2	67.4	56.0
IRELAND, REPUBLIC OF	1207.1	343.8	634.4	228.9	663.0	282.3	261.8
NEW ZEALAND	1165.7	92.1	223.7	849.8	526.6	302.6	336.4
NORWAY	2990.5	870.9	152.9	1966.7	1536.2	793.9	660.3
PORTUGAL	1246.3	452.6	735.1	58.6	605.4	533.9	107.0
SOUTH AFRICA	3240.5	2167.6	114.1	958.6	2602.0	584.3	54.2
SPAIN	3513.0	1253.1	1083.9	1175.9	1644.0	1286.3	582.6
TURKEY	2106.2	538.5	1396.9	170.7	1103.0	905.8	97.3
OTHER	184.6	25.9	19.3	139.3	82.0	76.0	26.5
TOTALS	30411.4	10068.6	6755.6	13587.1	17294.0	8710.1	4407.2
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	114.0	11.0	103.0	.0	94.0	20.0	.0
CZECHOSLOVAKIA	106.5	73.4	29.1	4.0	67.4	39.1	.0
GERMAN DEMOCRATIC REPUBLIC	309.5	169.0	110.7	29.7	224.8	83.3	1.3
HUNGARY	606.1	68.8	529.5	7.8	285.9	257.1	63.0
POLAND	550.4	156.8	392.6	1.0	102.5	303.1	144.8
ROMANIA	158.7	39.5	119.2	.0	46.1	107.9	4.6
U.S.S.R.	114.0	7.4	98.5	8.1	14.5	87.5	12.0
YUGOSLAVIA	2398.2	1145.8	1024.4	227.9	1100.5	1029.8	267.8
TOTALS	4357.7	1671.7	2407.2	278.6	1936.0	1928.1	493.5
OPEC MEMBERS							
ALGERIA	829.4	337.1	397.5	94.7	208.9	342.3	278.1
ECUADOR	2142.6	72.2	1939.3	131.1	1041.5	785.9	315.2
GABON	51.7	.0	42.9	8.8	25.8	21.5	4.3
INDONESIA	2747.5	181.7	838.4	1727.3	1588.9	747.4	411.1

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
IRAN	14.5	10.0	.0	4.5	14.5	.0	.0
IRAQ	556.9	440.0	111.5	5.4	309.8	246.0	1.1
KUWAIT	930.4	612.8	83.9	233.6	858.9	70.5	1.0
LIBYA	56.1	28.0	3.0	25.1	44.1	5.0	7.0
NIGERIA	1198.6	321.7	762.4	114.4	777.2	340.5	80.8
QATAR	21.8	7.0	.0	14.8	20.8	.0	1.0
SAUDI ARABIA	1617.9	346.6	9.7	1261.5	1170.8	265.7	181.4
UNITED ARAB EMIRATES	569.5	270.4	171.1	127.9	467.5	84.4	17.6
VENEZUELA	10090.5	2236.2	5125.2	2729.0	8432.0	1377.9	280.5
TOTALS	20827.8	4864.0	9485.3	6478.5	14961.0	4287.3	1579.4
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	8410.6	1423.4	4957.8	2029.4	4978.1	2354.4	1078.0
BOLIVIA	112.7	13.3	84.2	15.1	86.7	24.0	2.0
BRAZIL	22795.7	6829.7	12211.2	3754.7	9026.4	8604.8	5164.4
CHILE	6569.1	2576.4	3111.4	881.2	2648.3	2689.1	1231.6
COLOMBIA	2625.4	836.0	1255.1	534.1	1457.7	753.6	414.1
COSTA RICA	450.8	31.5	383.2	36.0	135.8	247.6	67.3
DOMINICAN REPUBLIC	485.2	26.0	372.6	86.5	272.9	197.8	14.4
EL SALVADOR	101.5	57.6	30.5	13.3	62.2	38.2	1.0
GUATEMALA	141.6	43.9	68.2	29.4	71.0	67.2	3.4
HONDURAS	140.3	22.8	69.5	47.9	96.1	37.1	7.0
JAMAICA	260.7	2.4	257.0	1.3	90.6	141.0	29.1
MEXICO	24934.3	4214.0	13364.5	7355.7	8095.0	10707.3	6131.9
NICARAGUA	90.7	10.4	76.3	4.0	63.8	12.2	14.6
PARAGUAY	171.8	4.6	120.9	46.3	79.8	86.0	6.0
PERU	1654.3	287.5	1149.7	217.0	1129.0	424.2	101.0
TRINIDAD AND TOBAGO	145.2	.0	144.2	1.0	52.0	58.5	34.7
URUGUAY	912.7	30.2	796.6	85.8	364.5	539.8	8.3
OTHER	157.9	87.9	52.8	17.2	124.3	21.8	11.8
TOTALS	70161.3	16498.3	38506.2	15156.6	28835.0	27005.2	14321.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	572.8	353.0	129.1	90.6	497.3	56.8	18.6
CHINA,TAIWAN	1913.6	711.2	527.0	675.4	1244.5	520.5	148.5
INDIA	935.3	251.4	318.0	365.8	472.9	266.5	195.8
ISRAEL	1725.1	1269.2	327.6	128.2	1230.2	445.4	49.4
JORDAN	166.4	38.7	105.5	22.2	97.9	51.4	17.1
KOREA, SOUTH	9164.9	4353.2	1917.1	2894.5	5937.8	2280.6	946.4
MALAYSIA	1087.3	186.0	446.0	455.2	397.6	427.7	261.9
PAKISTAN	262.9	29.5	161.5	71.8	180.3	82.5	.0
PHILIPPINES	5418.4	746.5	3316.8	1354.9	2666.6	2053.1	698.6
SYRIA	31.6	26.1	1.5	4.0	31.6	.0	.0
THAILAND	1876.7	890.5	291.2	694.9	1358.2	318.7	199.7
OTHER	943.1	264.5	311.4	367.1	410.2	395.5	137.3
TOTALS	24098.6	9120.3	7853.1	7125.1	14525.6	6899.2	2673.7

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	219.8	18.8	72.9	128.0	70.8	141.0	8.0
EGYPT	995.8	668.1	156.6	171.1	735.6	218.9	41.3
GHANA	14.8	2.0	10.8	2.0	11.4	3.4	.0
IVORY COAST	357.7	19.7	318.9	19.1	72.7	227.4	57.5
KENYA	107.0	.4	20.4	86.2	88.2	18.8	.0
MALAWI	60.6	16.7	41.9	2.0	49.8	10.7	.0
MOROCO	904.7	451.5	415.0	38.2	623.8	276.1	4.8
SENEGAL	51.6	5.0	31.3	15.3	27.8	21.1	2.7
SUDAN	67.2	14.2	49.0	4.0	48.5	7.0	11.7
TUNISIA	261.4	107.1	141.4	12.8	123.9	112.3	25.2
ZAIRE	29.8	.0	22.8	7.0	17.6	12.2	.0
ZAMBIA	101.0	3.3	87.8	9.9	59.2	14.7	27.0
OTHER	753.8	188.3	400.1	165.4	520.6	192.7	40.4
TOTALS	3925.8	1495.1	1769.5	661.1	2450.4	1256.5	218.7
OFFSHORE BANKING CENTERS							
BAHAMAS	5361.4	4934.8	29.6	396.9	5029.4	254.3	77.6
BAHRAIN	1269.0	1179.4	18.0	71.6	1238.7	24.3	6.0
BERMUDA	594.4	39.7	26.5	528.2	433.5	130.9	30.0
BRITISH WEST INDIES	8332.8	8210.4	28.6	93.7	8189.8	95.2	47.8
HONG KONG	6529.7	4103.9	81.3	2344.4	5575.9	538.7	415.0
LEBANON	113.6	66.7	4.0	42.8	103.2	5.4	5.0
LIBERIA	1450.9	8.1	37.8	1405.0	627.0	553.9	270.0
MACAO	286.2	243.6	4.3	38.3	272.2	9.3	4.7
NETHERLANDS ANTILLES	980.8	236.8	22.6	721.4	517.5	297.9	165.2
PANAMA	3001.9	1100.6	378.4	1522.9	2005.5	678.0	318.4
SINGAPORE	6255.2	5221.2	155.7	878.2	5757.9	245.7	251.6
TOTALS	34176.5	25345.5	787.0	8043.9	29750.9	2834.0	1591.5
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.5	.0	.5	.0	.5	.0	.0
ASIAN REGIONAL	4.0	.0	4.0	.0	2.0	.0	2.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	485.6	.0	471.6	14.0	210.0	67.5	208.1
LATIN AMERICAN REGIONAL	56.1	.0	56.1	.0	22.0	20.0	14.1
MIDDLE EASTERN REGIONAL	59.0	.0	59.0	.0	59.0	.0	.0
W. EUROPEAN REGIONAL	453.5	.0	434.5	19.0	112.1	102.4	239.0
TOTALS	1058.7	.0	1025.7	33.0	405.6	189.9	463.2
**** GRAND **** ** TOTALS **	294546.6	137613.2	76590.9	80342.4	194149.7	65977.6	34419.2

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, DECEMBER 1985
(IN MILLIONS OF DOLLARS)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	1492.5	334.4	1158.1	212.1	1537.9	2818.3
CANADA	5094.0	519.6	4574.4	153.0	317.3	5258.3
FRANCE	6375.4	920.6	5454.8	242.0	1045.2	7178.7
GERMANY, FEDERAL REPUBLIC OF	2447.7	1239.7	1208.0	112.5	501.7	2836.9
ITALY	2160.3	225.5	1934.8	41.2	220.1	2339.3
JAPAN	4194.7	1207.3	2987.4	101.0	1417.0	5510.7
NETHERLANDS	1529.5	484.5	1044.9	194.3	251.6	1586.7
SWEDEN	3109.6	443.7	2665.9	47.8	178.9	3240.7
SWITZERLAND	3886.2	2294.3	1591.9	224.5	408.2	4069.9
UNITED KINGDOM	12348.8	2997.4	9351.3	2154.8	3282.0	13476.0
TOTALS	42639.2	10667.3	31971.9	3483.4	9160.1	48316.0
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	4195.3	1580.0	2615.3	191.3	148.0	4152.0
AUSTRIA	668.4	95.1	573.3	9.1	28.2	687.5
DENMARK	998.8	152.2	846.6	11.3	109.4	1096.9
FINLAND	667.3	210.6	456.7	34.4	29.3	662.2
GREECE	731.4	214.2	517.2	24.6	8.4	715.2
ICELAND	67.4	5.4	62.0	1.0	.0	66.4
IRELAND, REPUBLIC OF	630.5	142.6	487.9	151.7	20.0	498.6
NEW ZEALAND	1120.7	498.4	622.3	323.3	45.5	842.5
NORWAY	1981.6	413.1	1568.5	195.3	259.2	2045.6
PORTUGAL	397.3	187.3	210.0	89.8	12.3	319.8
SOUTH AFRICA	293.0	111.8	181.2	73.4	21.8	241.4
SPAIN	1408.3	305.0	1103.3	78.6	98.6	1428.3
TURKEY	428.2	195.7	232.5	62.3	4.1	369.9
OTHER	84.9	19.9	65.0	32.4	.0	52.5
TOTALS	13673.6	4131.5	9542.0	1279.1	785.0	13179.4
EASTERN EUROPE						
ALBANIA	.0	.0	.0	.0	.0	.0
BULGARIA	30.5	1.3	29.0	.0	.0	30.3
CZECHOSLOVAKIA	1.2	.1	1.1	.0	1.3	2.5
GERMAN DEMOCRATIC REPUBLIC	146.6	1.4	145.2	7.0	4.0	143.6
HUNGARY	126.7	20.0	106.7	10.0	20.0	136.7
POLAND	56.2	49.7	6.5	9.7	.0	46.5
ROMANIA	58.3	58.2	.1	.2	.0	58.1
U.S.S.R.	30.5	1.0	29.5	.0	8.5	39.0
YUGOSLAVIA	140.1	42.4	97.7	22.3	1.9	119.7
TOTALS	590.0	174.1	415.9	49.2	35.7	576.4
OPEC MEMBERS						
ALGERIA	530.7	193.2	337.4	95.0	7.0	442.7
ECUADOR	304.8	176.1	128.7	152.0	1.5	154.3
GABON	47.3	8.9	38.4	18.2	.0	29.1
INDONESIA	1059.3	447.4	611.8	158.8	94.5	994.9
IRAN	1.3	1.3	.0	1.3	.0	.0
IRAQ	45.6	31.2	14.4	1.4	1.0	45.2

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: DECEMBER 1985
(IN MILLIONS OF DOLLARS)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
KUWAIT	127.6	71.6	56.0	2.6	7.2	132.2
LIBYA	34.0	26.0	8.0	.0	.0	34.0
NIGERIA	325.8	182.1	143.6	111.9	.0	213.8
QATAR	11.2	7.2	4.0	.9	1.0	11.3
SAUDI ARABIA	1012.2	597.9	414.2	189.7	57.5	880.0
UNITED ARAB EMIRATES	124.2	93.7	30.4	10.0	21.7	135.9
VENEZUELA	661.7	384.9	276.8	121.7	3.1	543.1
TOTALS	4286.0	2221.9	2064.0	863.6	194.5	3616.9
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	653.6	160.9	492.6	66.4	1.7	588.9
BOLIVIA	4.8	4.1	.7	2.7	.7	2.8
BRAZIL	1218.8	336.0	882.8	515.7	38.6	741.7
CHILE	639.4	152.7	486.7	56.9	.2	582.6
COLOMBIA	494.9	134.0	360.9	164.0	2.7	333.6
COSTA RICA	43.1	10.4	32.7	33.5	.0	9.5
DOMINICAN REPUBLIC	89.9	24.9	65.0	12.4	1.2	78.7
EL SALVADOR	87.7	72.7	15.0	31.4	.4	56.7
GUATEMALA	46.8	30.6	16.2	18.1	.3	29.0
HONDURAS	36.7	36.7	.0	23.0	.0	13.6
JAMAICA	15.1	9.7	5.4	4.0	.0	11.1
MEXICO	1614.3	888.6	725.6	486.3	15.0	1143.0
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	43.4	26.0	17.4	4.6	.0	38.8
PERU	193.7	82.7	110.9	119.0	.0	74.6
TRINIDAD AND TOBAGO	42.3	3.1	39.2	8.7	.0	33.6
URUGUAY	17.1	7.2	9.8	6.9	.0	10.1
OTHER	29.4	23.1	6.2	14.8	.0	14.6
TOTALS	5271.6	2004.0	3267.5	1568.9	60.8	3763.5
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA, MAINLAND	260.5	55.9	204.6	.0	71.6	332.1
CHINA, TAIWAN	1098.6	794.8	303.8	106.6	113.9	1105.9
INDIA	548.2	397.5	150.7	39.1	69.6	578.7
ISRAEL	241.3	96.5	144.8	46.8	24.2	218.7
JORDAN	75.4	34.2	41.2	8.5	3.3	70.2
KOREA, SOUTH	2056.0	1123.8	932.2	217.1	343.8	2182.8
MALAYSIA	255.7	149.4	106.2	15.5	1.0	241.2
PAKISTAN	193.3	94.2	99.1	3.7	10.8	200.4
PHILIPPINES	629.2	329.0	300.1	80.1	3.9	553.0
SYRIA	24.6	19.6	5.0	2.0	.0	22.6
THAILAND	458.5	152.7	305.8	17.2	18.1	459.4
OTHER	527.8	153.8	374.0	128.5	10.7	410.0
TOTALS	6369.7	3402.0	2967.7	665.1	671.0	6375.6
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	66.4	10.1	56.3	49.6	.0	16.8
EGYPT	654.8	447.2	207.6	102.2	11.3	563.9

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: DECEMBER 1985
(IN MILLIONS OF DOLLARS)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
GHANA	32.5	24.5	8.0	21.0	8.0	19.5
IVORY COAST	82.0	44.9	37.1	13.0	.0	69.0
KENYA	56.7	16.3	40.4	3.6	.0	53.1
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	73.9	32.1	41.8	16.6	.0	57.3
SENEGAL	10.3	9.4	.9	.0	.0	10.3
SUDAN	28.5	24.5	4.0	1.5	.0	27.0
TUNISIA	95.7	26.0	69.7	16.5	.0	79.2
ZAIRE	1.9	1.9	.0	.0	.0	1.9
ZAMBIA	31.4	19.4	12.0	13.8	.0	17.6
OTHER	314.5	193.5	120.9	84.7	6.0	235.7
TOTALS	1448.6	849.9	598.7	322.5	25.3	1151.4
OFFSHORE BANKING CENTERS						
BAHAMAS	210.2	95.1	115.1	96.8	152.5	265.9
BAHRAIN	112.5	87.5	25.0	6.3	14.8	121.0
BERMUDA	2856.4	2258.4	598.0	1730.5	10.3	1136.2
BRITISH WEST INDIES	158.0	119.4	38.6	138.1	2.0	21.9
HONG KONG	2422.1	1471.7	950.3	1130.0	303.5	1595.6
LEBANON	145.7	111.5	34.2	26.3	1.1	120.6
LIBERIA	295.4	69.9	225.5	279.3	.0	16.2
MACAO	32.4	22.9	9.5	.2	.0	32.2
NETHERLANDS ANTILLES	498.6	206.0	292.6	420.0	23.2	101.8
PANAMA	534.0	354.7	179.2	351.5	24.7	207.1
SINGAPORE	932.7	605.8	326.9	199.1	321.5	1055.0
TOTALS	8198.5	5403.3	2795.1	4378.4	853.8	4673.8
INTERNATIONAL & REGIONAL ORGANIZATIONS						
AFRICAN REGIONAL	18.1	.0	18.1	.0	.0	18.1
ASIAN REGIONAL	.0	.0	.0	.0	.0	.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
INTERNATIONAL	106.4	1.2	105.1	.0	255.6	362.0
LATIN AMERICAN REGIONAL	.0	.0	.0	.0	14.5	14.5
MIDDLE EASTERN REGIONAL	55.0	55.0	.0	1.0	.0	54.0
W. EUROPEAN REGIONAL	150.0	.0	150.0	.0	.0	150.0
TOTALS	329.5	56.2	273.2	1.0	270.2	598.7
**** GRAND **** ** TOTALS **	82807.0	28910.5	53896.4	12611.5	12056.7	82252.3

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985 [1]
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS [2] [3]
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL [4] THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS [5] BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED [6] BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	5167.6	1231.6	119.9	3816.1	209.4	1243.7	5269.2
CANADA	5809.6	67.0	315.0	5427.6	1153.7	373.4	6954.7
FRANCE	5928.2	488.7	92.0	5347.5	1545.4	729.1	7622.0
GERMANY, FEDERAL REPUBLIC OF	3474.6	100.6	254.3	3119.7	827.2	536.1	4483.0
ITALY	5272.9	290.4	102.9	4879.6	1654.3	386.7	6920.6
JAPAN	9564.8	97.5	64.4	9402.9	11221.4	855.4	21479.7
NETHERLANDS	1914.5	295.0	279.3	1340.2	294.9	315.3	1950.4
SWEDEN	1318.1	106.0	13.0	1199.1	59.0	116.6	1374.7
SWITZERLAND	2702.1	46.0	283.1	2373.0	138.0	431.0	2942.0
UNITED KINGDOM	20526.9	8298.9	2063.0	10165.0	888.3	3561.9	14615.2
TOTALS	61679.3	11021.7	3586.9	47070.7	17991.6	8549.2	73611.5
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	3520.0	4.0	332.3	3183.7	217.1	276.7	3677.5
AUSTRIA	986.2	2.0	17.0	967.2	140.0	51.4	1158.6
DENMARK	2143.6	2.0	67.6	2074.0	198.6	228.9	2501.5
FINLAND	929.1	.0	87.0	842.1	100.0	62.4	1004.5
GREECE	2296.6	30.0	168.4	2098.2	8.0	179.0	2285.2
ICELAND	214.7	.0	28.0	186.7	.0	9.0	195.7
IRELAND, REPUBLIC OF	789.3	30.9	34.4	724.0	130.9	100.0	954.9
NEW ZEALAND	734.0	6.0	54.4	673.6	25.0	15.0	713.6
NORWAY	2313.4	.0	282.1	2031.3	39.4	369.7	2440.4
PORTUGAL	791.8	32.0	57.7	702.1	152.2	7.0	861.3
SOUTH AFRICA	2356.9	16.0	135.4	2205.5	62.0	85.7	2353.2
SPAIN	2398.3	68.2	276.0	2054.1	197.1	66.5	2317.7
TURKEY	1483.9	2.0	120.4	1361.5	.0	18.0	1379.5
OTHER	159.4	.0	73.0	86.4	.0	13.0	99.4
TOTALS	21117.2	193.1	1733.7	19190.4	1270.3	1482.3	21943.0
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	101.0	.0	.0	101.0	.0	.0	101.0
CZECHOSLOVAKIA	80.4	6.6	8.0	65.8	.0	8.0	73.8
GERMAN DEMOCRATIC REPUBLIC	219.9	.0	1.0	218.9	.0	.0	218.9
HUNGARY	385.3	.0	15.0	370.3	.0	.0	370.3
POLAND	402.5	12.0	10.1	380.4	.0	.0	380.4
ROMANIA	129.0	.0	1.0	128.0	.0	.0	128.0
U.S.S.R.	90.2	4.2	17.0	69.0	9.0	.0	78.0
YUGOSLAVIA	1522.2	63.0	82.0	1377.2	3.0	26.0	1406.2
TOTALS	2930.5	85.8	134.1	2710.6	12.0	34.0	2756.6
OPEC MEMBERS							
ALGERIA	599.5	3.0	89.0	507.5	.0	67.0	574.5
ECUADOR	1365.3	.0	158.6	1206.7	.0	.0	1206.7

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985 1/
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/ 3/
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
GABON	41.9	.0	11.7	30.2	.0	14.9	45.1
INDONESIA	2300.2	6.1	426.3	1867.8	36.4	86.2	1990.4
IRAN	1.0	.0	.0	1.0	.0	.0	1.0
IRAQ	419.4	295.0	57.4	67.0	.0	30.0	97.0
KUWAIT	716.5	14.0	42.0	660.5	117.6	23.0	801.1
LIBYA	40.0	.0	12.0	28.0	.0	.0	28.0
NIGERIA	903.4	58.0	173.7	671.7	.0	22.0	693.7
QATAR	19.8	.0	8.7	11.1	9.0	.0	20.1
SAUDI ARABIA	1482.1	28.0	210.3	1243.8	179.0	166.5	1589.3
UNITED ARAB EMIRATES	462.7	4.3	46.7	411.7	70.2	8.3	490.2
VENEZUELA	7127.6	15.0	274.5	6838.1	107.0	1.2	6946.3
TOTALS	15479.4	423.4	1510.9	13545.1	519.2	419.1	14483.4
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	5874.7	3.0	852.5	5019.2	708.5	475.2	6202.9
BOLIVIA	58.5	1.0	7.0	50.5	2.0	2.0	54.5
BRAZIL	15550.1	407.4	972.7	14170.0	1284.4	383.0	15837.4
CHILE	4067.1	146.5	115.9	3804.7	11.0	83.0	3898.7
COLOMBIA	1923.8	118.0	25.2	1780.6	60.0	2.0	1842.6
COSTA RICA	219.7	1.0	5.9	212.8	.0	.0	212.8
DOMINICAN REPUBLIC	357.3	7.0	34.6	315.7	.0	.0	315.7
EL SALVADOR	38.3	14.0	1.7	22.6	.0	.0	22.6
GUATEMALA	43.2	.0	2.2	41.0	.0	.0	41.0
HONDURAS	73.7	.0	13.5	60.2	.0	.0	60.2
JAMAICA	210.3	.4	75.9	134.0	.0	.0	134.0
MEXICO	14087.3	120.0	1039.3	12928.0	422.0	484.0	13834.0
NICARAGUA	45.1	.0	1.0	44.1	.0	.0	44.1
PARAGUAY	154.1	.0	1.0	153.1	.0	1.0	154.1
PERU	956.3	23.0	83.9	849.4	11.0	7.0	867.4
TRINIDAD AND TOBAGO	117.0	.0	7.0	110.0	.0	2.0	112.0
URUGUAY	713.5	.0	19.6	693.9	.0	.0	693.9
OTHER	59.1	9.0	17.0	33.1	.0	.0	33.1
TOTALS	44549.1	850.3	3275.9	40422.9	2500.9	1439.2	44363.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	268.1	.0	.0	268.1	219.4	75.0	562.5
CHINA,TAIWAN	1121.6	16.0	51.4	1054.2	31.4	98.8	1184.4
INDIA	736.5	10.0	15.0	711.5	136.6	11.3	859.4
ISRAEL	1026.3	34.5	69.0	922.8	29.0	64.0	1015.8
JORDAN	148.4	.0	22.6	125.8	53.0	10.0	188.8
KOREA, SOUTH	5078.7	360.8	162.0	4555.9	225.8	392.6	5174.3
MALAYSIA	896.7	2.0	59.8	834.9	81.1	60.2	976.2
PAKISTAN	246.5	.0	.6	245.9	27.0	12.3	285.2
PHILIPPINES	3790.8	132.0	189.9	3468.9	92.0	9.0	3569.9

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985[1]
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS[2] [3]
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL[4] THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS[5] BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED[6] BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
SYRIA	15.1	.0	.0	15.1	.0	1.0	16.1
THAILAND	1201.9	32.2	36.3	1133.4	183.7	8.5	1325.6
OTHER	755.0	30.0	178.0	547.0	4.1	.0	551.1
TOTALS	15285.6	617.5	784.6	13883.5	1083.1	742.7	15709.3
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	174.2	.0	83.0	91.2	.0	.0	91.2
EGYPT	642.9	124.0	108.5	410.4	11.0	4.0	425.4
GHANA	12.0	.0	5.0	7.0	.0	1.0	8.0
IVORY COAST	252.5	1.0	6.7	244.8	.0	22.0	266.8
KENYA	105.6	.0	11.3	94.3	.0	.0	94.3
MALAWI	58.1	.0	3.0	55.1	3.0	1.0	59.1
MOROCO	657.4	41.5	14.0	601.9	7.0	14.0	622.9
SENEGAL	46.6	.0	.0	46.6	.0	.0	46.6
SUDAN	61.5	.0	3.8	57.7	.0	.0	57.7
TUNISIA	247.7	14.4	67.9	165.4	.0	5.0	170.4
ZAIRE	27.3	.0	19.5	7.8	.0	.0	7.8
ZAMBIA	94.7	.0	29.2	65.5	4.0	.0	69.5
OTHER	586.1	1.0	184.6	400.5	.0	14.0	414.5
TOTALS	2966.6	181.9	536.5	2248.2	25.0	61.0	2334.2
OFFSHORE BANKING CENTERS							
BAHAMAS	1299.3	754.7	195.9	348.7	20.0	33.1	401.8
BAHRAIN	830.9	501.2	50.1	279.6	76.1	.0	355.7
BERMUDA	460.5	.0	226.0	234.5	.0	41.0	275.5
BRITISH WEST INDIES	1610.2	1515.8	58.0	36.4	.0	4.0	40.4
HONG KONG	4054.6	1683.7	766.4	1604.5	34.4	418.5	2057.4
LEBANON	97.3	.0	26.0	71.3	19.0	5.0	95.3
LIBERIA	1149.8	.0	1111.6	38.2	.0	.0	38.2
MACAO	193.7	91.6	2.7	99.4	.0	4.3	103.7
NETHERLANDS ANTILLES	703.4	94.0	376.3	233.1	1.0	9.1	243.2
PANAMA	1812.8	239.0	932.5	641.3	10.0	55.2	706.5
SINGAPORE	3644.5	2460.0	276.3	908.2	37.0	194.0	1139.2
TOTALS	15857.0	7340.0	4021.8	4455.2	197.5	764.2	5456.9
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.5	.0	.0	.5	.0	.0	.5
ASIAN REGIONAL	1.0	.0	.0	1.0	.0	1.0	2.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	272.0	.0	.0	272.0	5.0	2.0	279.0
LATIN AMERICAN REGIONAL	41.0	.0	.0	41.0	.0	.0	41.0
MIDDLE EASTERN REGIONAL	59.0	.0	.0	59.0	.0	.0	59.0
W. EUROPEAN REGIONAL	203.5	.0	.0	203.5	.0	.0	203.5
TOTALS	577.0	.0	.0	577.0	5.0	5.0	585.0
GRAND TOTALS	180441.7	20713.7	15584.4	144143.6	23604.6	13494.7	181242.9

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	5167.6	4117.5	429.0	621.1	4633.1	254.7	279.8
CANADA	5809.6	1927.9	231.4	3650.3	2872.6	1278.6	1658.4
FRANCE	5928.2	3711.8	1150.1	1066.3	4408.9	867.2	652.1
GERMANY, FEDERAL REPUBLIC OF	3474.6	1393.4	421.2	1660.0	2161.6	1019.3	293.7
ITALY	5272.9	2672.2	1873.3	727.4	3186.2	1218.8	867.9
JAPAN	9564.8	4256.5	115.6	5192.7	7164.4	1948.4	452.0
NETHERLANDS	1914.5	724.0	143.9	1046.6	1477.5	228.0	209.0
SWEDEN	1318.1	603.1	223.9	491.1	952.7	262.2	103.2
SWITZERLAND	2702.1	780.7	147.5	1773.9	2214.7	224.8	262.6
UNITED KINGDOM	20526.9	12071.8	614.7	7840.4	17059.1	1826.6	1641.2
TOTALS	61679.3	32258.9	5350.6	24069.8	46130.8	9128.6	6419.9
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	3520.0	203.0	264.2	3052.8	1630.9	1131.9	757.2
AUSTRIA	986.2	647.9	228.6	109.7	786.9	125.9	73.4
DENMARK	2143.6	567.7	200.7	1375.2	1330.0	614.3	199.3
FINLAND	929.1	280.2	255.6	393.3	488.9	335.0	105.2
GREECE	2296.6	110.8	671.1	1514.7	768.9	1013.2	514.5
ICELAND	214.7	27.8	108.8	78.1	103.2	56.5	55.0
IRELAND, REPUBLIC OF	789.3	176.6	428.0	184.7	443.0	188.1	158.2
NEW ZEALAND	734.0	31.0	152.3	550.7	252.8	212.4	268.8
NORWAY	2313.4	371.9	139.4	1802.1	1020.5	712.1	580.8
PORTUGAL	791.8	212.6	553.7	25.5	330.4	378.3	83.1
SOUTH AFRICA	2356.9	1499.0	27.0	830.9	1873.1	448.8	35.0
SPAIN	2398.3	825.6	818.6	754.1	1113.0	898.2	387.1
TURKEY	1483.9	362.6	972.7	148.6	755.7	651.8	76.4
OTHER	159.4	14.0	18.0	127.4	63.2	70.7	25.5
TOTALS	21117.2	5330.7	4838.7	10947.8	10960.5	6837.2	3319.5
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	101.0	5.0	96.0	.0	81.0	20.0	.0
CZECHOSLOVAKIA	80.4	60.4	16.0	4.0	57.9	22.5	.0
GERMAN DEMOCRATIC REPUBLIC	219.9	106.9	103.0	10.0	155.9	63.0	1.0
HUNGARY	385.3	30.0	348.3	7.0	167.1	167.2	51.0
POLAND	402.5	84.0	318.5	.0	62.0	223.8	116.7
ROMANIA	129.0	30.0	99.0	.0	40.0	86.0	3.0
U.S.S.R.	90.2	4.2	86.0	.0	4.8	73.4	12.0
YUGOSLAVIA	1522.2	703.6	675.6	143.0	714.7	630.3	177.2
TOTALS	2930.5	1024.1	1742.4	164.0	1283.4	1286.2	360.9
OPEC MEMBERS							
ALGERIA	599.5	248.4	301.1	50.0	142.6	272.0	184.9
ECUADOR	1365.3	13.7	1264.4	87.2	739.3	383.2	242.8
GABON	41.9	.0	33.3	8.6	18.7	19.1	4.1

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
INDONESIA	2300.2	71.0	675.3	1553.9	1304.6	647.4	348.2
IRAN	1.0	.0	.0	1.0	1.0	.0	.0
IRAQ	419.4	333.0	85.4	1.0	214.1	204.3	1.0
KUWAIT	716.5	447.7	79.0	189.8	654.8	60.7	1.0
LIBYA	40.0	25.0	3.0	12.0	40.0	.0	.0
NIGERIA	903.4	259.1	547.4	96.9	598.3	249.1	56.0
QATAR	19.8	7.0	.0	12.8	19.8	.0	.0
SAUDI ARABIA	1482.1	312.2	6.0	1163.9	1049.0	252.7	180.4
UNITED ARAB EMIRATES	462.7	192.1	160.7	109.9	373.9	76.2	12.6
VENEZUELA	7127.6	1387.1	4029.6	1710.9	5957.9	940.2	229.5
TOTALS	15479.4	3296.3	7185.2	4997.9	11114.0	3104.9	1260.5
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	5874.7	791.5	3534.4	1548.8	3511.2	1588.9	774.6
BOLIVIA	58.5	3.0	51.0	4.5	39.3	19.2	.0
BRAZIL	15550.1	3881.0	8980.9	2688.2	5999.0	5908.7	3642.4
CHILE	4067.1	1307.2	2138.7	621.2	1749.8	1579.4	737.9
COLOMBIA	1923.8	503.8	1032.1	387.9	997.7	583.1	343.0
COSTA RICA	219.7	2.0	203.8	13.9	54.2	134.6	30.9
DOMINICAN REPUBLIC	357.3	17.5	292.5	47.3	196.1	155.2	6.0
EL SALVADOR	38.3	14.0	19.0	5.3	19.4	17.9	1.0
GUATEMALA	43.2	.0	29.9	13.3	13.3	26.7	3.2
HONDURAS	73.7	.1	38.0	35.6	51.7	19.0	3.0
JAMAICA	210.3	.4	208.6	1.3	67.0	114.3	29.0
MEXICO	14087.3	2399.7	7989.4	3698.2	4721.6	6277.2	3088.5
NICARAGUA	45.1	10.4	34.7	.0	32.1	3.0	10.0
PARAGUAY	154.1	1.0	117.6	35.5	73.0	75.1	6.0
PERU	956.3	154.6	661.2	140.5	616.7	269.3	70.3
TRINIDAD AND TOBAGO	117.0	.0	116.0	1.0	52.0	50.0	15.0
URUGUAY	713.5	17.0	649.9	46.6	280.0	427.1	6.4
OTHER	59.1	12.5	34.4	12.2	34.1	14.2	10.8
TOTALS	44549.1	9115.7	26132.1	9301.3	18508.2	17262.9	8778.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	268.1	91.0	105.1	72.0	209.1	47.0	12.0
CHINA,TAIWAN	1121.6	357.5	352.2	411.9	695.5	328.3	97.8
INDIA	736.5	129.2	309.8	297.5	344.3	231.9	160.3
ISRAEL	1026.3	817.3	130.0	79.3	800.6	208.7	17.0
JORDAN	148.4	25.0	101.4	22.0	84.1	47.2	17.1
KOREA, SOUTH	5078.7	1447.4	1337.5	2293.8	3012.4	1371.3	695.0
MALAYSIA	896.7	140.0	359.8	396.9	326.5	371.8	198.4
PAKISTAN	246.5	26.8	156.5	63.2	168.5	78.0	.0
PHILIPPINES	3790.8	363.5	2315.9	1111.4	1541.8	1721.5	527.5
SYRIA	15.1	14.1	.0	1.0	15.1	.0	.0
THAILAND	1201.9	400.8	274.4	526.7	801.7	208.2	192.0

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PORTION OF TOTAL OWED BY PUBLIC BORROWERS	PORTION OF TOTAL OWED BY PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	MATURITY OF DISTRIBUTION OF AMOUNTS OWED OVER ONE TO 5 YEARS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	755.0	154.1	275.1	325.8	289.7	345.2	120.1
TOTALS	15285.6	3966.7	5717.7	5601.2	8289.3	4959.1	2037.2
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	174.2	18.0	69.0	87.2	57.1	109.1	8.0
EGYPT	642.9	359.0	130.3	153.6	510.6	91.0	41.3
GHANA	12.0	2.0	8.0	2.0	10.0	2.0	.0
IVORY COAST	252.5	19.0	223.7	9.8	42.3	166.1	44.1
KENYA	105.6	.0	20.4	85.2	88.2	17.4	.0
MALAWI	58.1	16.7	39.4	2.0	48.7	9.4	.0
MOROCO	657.4	303.9	332.0	21.5	501.5	152.1	3.8
SENEGAL	46.6	5.0	26.3	15.3	27.2	16.8	2.6
SUDAN	61.5	14.0	47.5	.0	47.3	3.0	11.2
TUNISIA	247.7	99.3	136.2	12.2	113.2	112.3	22.2
ZAIRE	27.3	.0	20.3	7.0	16.4	10.9	.0
ZAMBIA	94.7	3.0	85.7	6.0	57.6	10.1	27.0
OTHER	586.1	153.4	303.3	129.4	398.6	156.6	30.9
TOTALS	2966.6	993.3	1442.1	531.2	1918.7	856.8	191.1
OFFSHORE BANKING CENTERS							
BAHAMAS	1299.3	936.7	9.8	352.8	1053.8	206.7	38.8
BAHRAIN	830.9	751.5	15.0	64.4	800.9	24.0	6.0
BERMUDA	460.5	3.0	26.0	431.5	355.4	78.1	27.0
BRITISH WEST INDIES	1610.2	1527.8	8.0	74.4	1548.2	46.3	15.7
HONG KONG	4054.6	2208.1	74.0	1772.5	3253.6	446.0	355.0
LEBANON	97.3	59.1	1.0	37.2	87.3	5.0	5.0
LIBERIA	1149.8	4.0	32.2	1113.6	529.3	414.5	206.0
MACAO	193.7	170.6	4.3	18.8	185.6	6.7	1.4
NETHERLANDS ANTILLES	703.4	106.0	18.6	578.8	347.5	238.8	117.1
PANAMA	1812.8	309.8	255.9	1247.1	1036.5	543.9	232.4
SINGAPORE	3644.5	2854.2	43.6	746.7	3310.7	188.8	145.0
TOTALS	15857.0	8930.8	488.4	6437.8	12508.8	2198.8	1149.4
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.5	.0	.5	.0	.5	.0	.0
ASIAN REGIONAL	1.0	.0	1.0	.0	1.0	.0	.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	272.0	.0	258.0	14.0	175.0	32.0	65.0
LATIN AMERICAN REGIONAL	41.0	.0	41.0	.0	22.0	19.0	.0
MIDDLE EASTERN REGIONAL	59.0	.0	59.0	.0	59.0	.0	.0
W. EUROPEAN REGIONAL	203.5	.0	184.5	19.0	61.1	20.4	122.0
TOTALS	577.0	.0	544.0	33.0	318.6	71.4	187.0
GRAND TOTALS	180441.7	64196.5	53441.2	62084.0	111032.3	45705.9	23703.5

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: DECEMBER 1985
(IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	1227.3	239.7	987.6	168.5	1450.0	2508.8
CANADA	4140.6	408.5	3732.1	93.0	217.2	4264.8
FRANCE	4988.1	641.2	4346.9	227.1	878.5	5639.5
GERMANY, FEDERAL REPUBLIC OF	2032.9	1050.8	982.1	91.7	255.1	2196.3
ITALY	1816.4	179.0	1637.4	31.2	208.3	1993.5
JAPAN	3123.0	911.5	2211.5	33.9	708.7	3797.8
NETHERLANDS	1270.9	425.6	845.3	137.5	168.8	1302.2
SWEDEN	2604.5	409.2	2195.3	47.7	169.8	2726.6
SWITZERLAND	3521.6	2107.2	1414.4	184.2	343.0	3680.4
UNITED KINGDOM	10036.6	2261.8	7774.8	1776.4	2788.1	11048.3
TOTALS	34761.9	8634.5	26127.4	2791.2	7187.5	39158.2
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	3266.5	1192.6	2073.9	164.0	83.5	3186.0
AUSTRIA	615.4	84.6	530.8	9.0	4.0	610.4
DENMARK	921.0	131.3	789.7	11.3	76.0	985.7
FINLAND	560.5	182.7	377.8	34.4	16.3	542.4
GREECE	692.6	212.7	479.9	24.5	8.2	676.3
ICELAND	57.1	5.4	51.7	.1	.0	57.0
IRELAND, REPUBLIC OF	594.5	111.9	482.6	142.8	20.0	471.7
NEW ZEALAND	911.2	440.9	470.3	316.1	34.0	629.1
NORWAY	1899.9	388.6	1511.3	193.2	231.2	1937.9
PORTUGAL	271.8	176.8	95.0	14.8	12.3	269.3
SOUTH AFRICA	242.3	97.0	145.3	38.0	18.4	222.7
SPAIN	1195.8	224.2	971.6	70.6	89.2	1214.4
TURKEY	342.2	135.5	206.7	40.3	4.0	305.9
OTHER	66.1	14.1	52.0	19.0	.0	47.1
TOTALS	11636.9	3398.3	8238.6	1078.1	597.1	11155.9
EASTERN EUROPE						
ALBANIA	.0	.0	.0	0	.0	.0
BULGARIA	26.0	.0	26.0	.0	.0	26.0
CZECHOSLOVAKIA	1.2	.1	1.1	.0	.0	1.2
GERMAN DEMOCRATIC REPUBLIC	92.2	1.0	91.2	7.0	4.0	89.2
HUNGARY	72.6	5.0	67.6	.0	.0	72.6
POLAND	46.7	41.0	5.7	1.0	.0	45.7
ROMANIA	57.1	57.0	.1	.0	.0	57.1
U.S.S.R.	10.5	1.0	9.5	.0	.0	10.5
YUGOSLAVIA	34.6	15.0	19.6	4.0	1.0	31.6
TOTALS	340.9	120.1	220.8	12.0	5.0	333.9
OPEC MEMBERS						
ALGERIA	460.1	155.9	306.2	95.0	7.0	372.1
ECUADOR	201.4	118.4	83.0	132.9	.0	68.5
GABON	43.9	7.9	36.0	18.2	.0	25.7
INDONESIA	876.5	377.9	498.6	108.6	79.3	847.2
IRAN	1.3	1.3	.0	1.3	.0	.0

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, DECEMBER 1985
(IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	PORTION OF TOTAL CONSISTING OF OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
IRAQ	27.0	13.0	14.0	1.0	.0	26.0
KUWAIT	78.3	45.3	33.0	.6	7.2	84.9
LIBYA	28.0	24.0	4.0	.0	.0	28.0
NIGERIA	273.7	160.1	113.6	95.0	.0	178.7
QATAR	11.0	7.0	4.0	.9	.0	10.1
SAUDI ARABIA	842.1	531.1	311.0	182.5	54.3	713.9
UNITED ARAB EMIRATES	110.8	82.4	28.4	10.0	21.2	122.0
VENEZUELA	586.9	311.6	275.3	103.7	3.0	486.2
TOTALS	3541.0	1833.9	1707.1	749.7	172.0	2963.3
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	504.1	109.2	394.9	49.1	.1	455.1
BOLIVIA	1.7	1.0	.7	.7	.0	1.0
BRAZIL	941.8	224.0	717.8	400.1	38.0	579.7
CHILE	479.2	77.7	401.5	37.0	.0	442.2
COLOMBIA	414.8	83.1	331.7	161.0	.0	253.8
COSTA RICA	8.0	3.0	5.0	2.0	.0	6.0
DOMINICAN REPUBLIC	80.1	15.1	65.0	7.0	.0	73.1
EL SALVADOR	20.9	5.9	15.0	.0	.0	20.9
GUATEMALA	14.0	6.0	8.0	4.0	.0	10.0
HONDURAS	1.1	1.1	.0	.1	.0	1.0
JAMAICA	7.3	6.3	1.0	3.0	.0	4.3
MEXICO	1125.4	519.4	606.0	387.6	15.0	752.8
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	41.5	24.1	17.4	3.4	.0	38.1
PERU	139.1	47.1	92.0	92.4	.0	46.7
TRINIDAD AND TOBAGO	33.0	3.0	30.0	.0	.0	33.0
URUGUAY	9.1	3.0	6.1	5.5	.0	3.6
OTHER	20.5	16.1	4.4	10.4	.0	10.1
TOTALS	3841.6	1145.1	2696.5	1163.3	53.1	2731.4
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	254.9	55.9	199.0	.0	65.1	320.0
CHINA,TAIWAN	944.1	659.6	284.5	102.0	82.5	924.6
INDIA	508.7	360.2	148.5	39.0	68.5	538.2
ISRAEL	162.7	43.7	119.0	35.7	12.0	139.0
JORDAN	54.5	28.3	26.2	8.0	3.2	49.7
KOREA, SOUTH	1728.3	969.1	759.2	207.0	295.0	1816.3
MALAYSIA	240.1	147.8	92.3	15.4	1.0	225.7
PAKISTAN	190.6	92.5	98.1	3.4	10.8	198.0
PHILIPPINES	437.8	212.2	225.6	74.3	2.0	365.5
SYRIA	11.2	10.2	1.0	1.0	.0	10.2
THAILAND	321.6	79.1	242.5	17.0	8.1	312.7
OTHER	508.8	139.8	369.0	126.1	5.0	387.7
TOTALS	5363.3	2798.4	2564.9	628.9	553.2	5287.6

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: DECEMBER 1985 PAGE 3
(IN MILLIONS OF DOLLARS)
9 MONEY CENTER BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	51.1	8.1	43.0	38.0	.0	13.1
EGYPT	495.8	313.8	182.0	88.3	11.1	418.6
GHANA	32.1	24.1	8.0	21.0	8.0	19.1
IVORY COAST	76.5	41.5	35.0	13.0	.0	63.5
KENYA	56.1	15.7	40.4	3.0	.0	53.1
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	41.9	9.0	32.9	14.6	.0	27.3
SENEGAL	10.3	9.4	.9	.0	.0	10.3
SUDAN	8.1	4.1	4.0	1.1	.0	7.0
TUNISIA	94.7	26.0	68.7	16.5	.0	78.2
ZAIRE	1.9	1.9	.0	.0	.0	1.9
ZAMBIA	30.5	18.5	12.0	13.8	.0	16.7
OTHER	286.6	180.9	105.7	81.7	6.0	210.9
TOTALS	1185.6	653.0	532.6	291.0	25.1	919.7
OFFSHORE BANKING CENTERS						
BAHAMAS	182.3	77.2	105.1	82.0	147.5	247.8
BAHRAIN	95.1	71.1	24.0	5.0	14.8	104.9
BERMUDA	2272.5	1704.8	567.7	1438.8	1.0	834.7
BRITISH WEST INDIES	147.4	109.4	38.0	132.6	1.0	15.8
HONG KONG	2036.3	1238.2	798.1	1025.4	272.0	1282.9
LEBANON	109.0	84.8	24.2	26.0	.0	83.0
LIBERIA	271.4	58.4	213.0	265.2	.0	6.2
MACAO	22.5	22.0	.5	.2	.0	22.3
NETHERLANDS ANTILLES	441.2	181.0	260.2	389.6	7.0	58.6
PANAMA	414.6	254.6	160.0	321.6	22.3	115.3
SINGAPORE	793.2	499.7	293.5	131.0	320.4	982.6
TOTALS	6785.5	4301.2	2484.3	3817.4	786.0	3754.1
INTERNATIONAL & REGIONAL ORGANIZATIONS						
AFRICAN REGIONAL	17.0	.0	17.0	.0	.0	17.0
ASIAN REGIONAL	.0	.0	.0	.0	.0	.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
INTERNATIONAL	105.0	.0	105.0	.0	250.0	355.0
LATIN AMERICAN REGIONAL	.0	.0	.0	.0	6.0	6.0
MIDDLE EASTERN REGIONAL	55.0	55.0	.0	1.0	.0	54.0
W. EUROPEAN REGIONAL	150.0	.0	150.0	.0	.0	150.0
TOTALS	327.0	55.0	272.0	1.0	256.0	582.0
**** GRAND **** ** TOTALS **	67783.7	22939.5	44844.2	10532.6	9635.0	66886.1

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985 1/
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/ 3/
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1339.8	621.1	13.3	705.3	322.9	25.3	1053.6
CANADA	2111.6	216.4	120.7	1774.4	1129.7	127.6	3031.8
FRANCE	2053.9	353.8	5.8	1694.2	1671.6	63.5	3429.5
GERMANY, FEDERAL REPUBLIC OF	476.1	37.3	39.5	399.2	921.5	132.8	1453.7
ITALY	1685.3	42.2	1.3	1641.8	1436.4	62.0	3140.3
JAPAN	2670.9	399.7	49.1	2222.1	9231.5	144.8	11598.4
NETHERLANDS	323.6	13.2	74.2	236.2	391.6	24.6	652.5
SWEDEN	473.5	.0	9.4	464.1	56.0	24.5	544.6
SWITZERLAND	510.3	21.9	.8	487.6	131.7	103.4	722.7
UNITED KINGDOM	7691.5	4547.6	392.8	2750.9	982.0	304.0	4037.1
TOTALS	19336.9	6253.4	707.0	12376.4	16275.3	1012.9	29664.6
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	1424.6	47.6	28.8	1348.0	420.0	205	1973.2
AUSTRIA	304.9	.0	.0	304.9	95.3	20.0	420.2
DENMARK	398.7	.0	.0	398.7	146.7	6.9	552.4
FINLAND	272.9	2.0	.0	270.9	76.9	.0	347.9
GREECE	350.6	7.0	.3	343.3	5.0	10.0	358.3
ICELAND	19.0	.0	.0	19.0	.0	.0	19.0
IRELAND, REPUBLIC OF	271.6	16.1	.0	255.4	241.2	9.0	505.7
NEW ZEALAND	274.2	2.3	9.7	262.2	76.7	18.7	357.7
NORWAY	321.3	.0	1.7	319.6	34.0	10.6	364.2
PORTUGAL	226.0	17.7	.0	208.3	125.7	9.0	343.0
SOUTH AFRICA	613.7	13.5	17.1	583.1	31.0	20.9	635.1
SPAIN	502.4	38.9	2.0	461.5	129.3	2.0	592.8
TURKEY	407.1	15.2	77.1	314.8	1.0	.1	315.9
OTHER	7.3	.0	1.0	6.3	.0	.0	6.3
TOTALS	5394.9	160.4	137.8	5096.6	1383.1	312.5	6792.3
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	10.0	.0	.0	10.0	.0	.0	10.0
CZECHOSLOVAKIA	9.0	.0	.0	9.0	.0	.0	9.0
GERMAN DEMOCRATIC REPUBLIC	45.2	.0	.0	45.2	.0	10.0	55.2
HUNGARY	127.3	5.0	4.0	118.3	.0	.0	118.3
POLAND	65.5	.0	.0	65.5	.0	.0	65.5
ROMANIA	15.4	.0	.0	15.4	.0	.0	15.4
U.S.S.R.	11.1	.0	8.1	3.0	.0	.0	3.0
YUGOSLAVIA	447.1	8.6	8.8	429.6	.0	9.8	439.4
TOTALS	730.7	13.6	20.9	696.2	.0	19.8	716.0
OPEC MEMBERS							
ALGERIA	185.7	.0	.2	185.5	3.2	.0	188.7
ECUADOR	297.9	1.3	3.4	293.2	.0	.0	293.2

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985 1/

TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/ 3/

(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
GABON	4.4	.0	.2	4.2	.0	.0	4.2
INDONESIA	304.6	5.0	27.7	271.9	59.5	32.0	363.5
IRAN	3.0	.0	3.0	.0	.0	.0	.0
IRAQ	83.5	3.1	2.0	78.4	.0	.0	78.4
KUWAIT	148.8	.0	1.1	147.7	129.3	.0	277.0
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	159.9	1.4	36.8	121.7	.0	.0	121.7
QATAR	1.0	.0	1.0	.0	10.0	.0	10.0
SAUDI ARABIA	69.6	.0	1.8	67.8	97.2	.0	165.0
UNITED ARAB EMIRATES	74.2	22.1	6.5	45.6	41.5	.0	87.1
VENEZUELA	1700.9	1.0	109.6	1590.3	45.0	.0	1635.3
TOTALS	3033.9	33.9	193.3	2806.6	385.7	32.0	3224.5
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	1602.7	5.0	84.0	1513.7	77.9	18.7	1610.3
BOLIVIA	32.4	2.2	1.0	29.2	.0	.0	29.2
BRAZIL	3933.1	52.0	171.3	3709.7	454.4	117.1	4281.2
CHILE	1152.4	43.6	57.1	1051.6	.0	4.0	1055.6
COLOMBIA	383.8	8.0	22.8	353.0	23.1	5.0	381.1
COSTA RICA	132.0	1.0	8.5	122.5	.0	.0	122.5
DOMINICAN REPUBLIC	54.4	1.1	5.3	48.0	.0	.0	48.0
EL SALVADOR	4.6	.1	3.4	1.1	.0	.0	1.1
GUATEMALA	12.8	.2	5.2	7.4	.0	.0	7.4
HONDURAS	33.7	2.6	14.0	17.1	.0	.0	17.1
JAMAICA	24.8	.0	18.4	6.4	.0	.0	6.4
MEXICO	4673.1	23.7	299.9	4349.3	306.0	25.5	4680.9
NICARAGUA	38.5	.0	.0	38.5	.0	.0	38.5
PARAGUAY	4.3	.0	.7	3.6	.0	.0	3.6
PERU	398.4	1.0	42.7	354.7	.0	.0	354.7
TRINIDAD AND TOBAGO	21.7	.0	19.7	2.0	.0	.4	2.4
URUGUAY	123.3	.5	5.8	117.0	.0	.0	117.0
OTHER	23.2	6.2	5.8	11.2	.0	.0	11.2
TOTALS	12649.7	147.3	765.7	11736.6	861.4	170.7	12768.8
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	240.0	.0	.0	240.0	52.8	10.6	303.5
CHINA,TAIWAN	446.1	.1	13.1	432.9	65.0	36.3	534.2
INDIA	174.3	.1	.3	173.9	134.1	11.0	319.1
ISRAEL	205.2	33.0	19.0	153.2	9.5	4.5	167.2
JORDAN	9.6	.0	.1	9.5	11.8	.0	21.3
KOREA, SOUTH	2259.9	258.7	12.9	1988.3	269.4	129.2	2386.9
MALAYSIA	125.4	4.5	.0	120.9	64.9	7.0	192.9
PAKISTAN	1.7	1.4	.1	.2	20.0	.0	20.2
PHILIPPINES	1112.7	15.4	59.1	1038.1	14.9	1.0	1054.1

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985 [1]
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS [2] [3]
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL [4] THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS [5] BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED [6] BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
SYRIA	3.0	.0	3.0	.0	.0	.0	.0
THAILAND	516.9	7.0	4.6	505.3	82.8	4.6	592.8
OTHER	75.3	20.1	4.7	50.4	3.0	3.3	56.7
TOTALS	5170.7	340.3	117.0	4713.2	728.5	207.6	5649.3
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	22.9	.0	1.3	21.6	.0	.0	21.6
EGYPT	236.4	87.9	12.0	136.5	17.2	.6	154.3
GHANA	1.0	.0	1.0	.0	.0	.0	.0
IVORY COAST	42.4	.0	.0	42.4	.0	.0	42.4
KENYA	.4	.0	.0	.4	.0	.0	.4
MALAWI	.3	.0	.0	.3	.0	.0	.3
MOROCO	100.6	13.2	.2	87.2	.0	.9	88.1
SENEGAL	2.5	.0	.0	2.5	.0	.0	2.5
SUDAN	.2	.1	.0	.1	.0	.0	.1
TUNISIA	9.4	.0	.0	9.4	.0	.0	9.4
ZAIRE	2.0	.0	2.0	.0	.0	.0	.0
ZAMBIA	4.1	.0	.0	4.1	.0	.0	4.1
OTHER	85.2	8.0	22.2	55.0	.0	.0	55.0
TOTALS	507.7	109.2	38.7	359.8	17.2	1.5	378.5
OFFSHORE BANKING CENTERS							
BAHAMAS	745.3	604.7	22.0	118.5	6.0	3.9	128.5
BAHRAIN	290.3	88.1	3.0	199.2	57.0	15.5	271.7
BERMUDA	81.4	.0	.0	81.4	.0	8.5	89.9
BRITISH WEST INDIES	2009.8	1981.5	9.3	19.0	.0	25.4	44.4
HONG KONG	1510.3	814.0	124.5	571.7	48.7	80.2	700.6
LEBANON	6.3	1.0	3.4	1.9	.2	.0	2.1
LIBERIA	179.4	.2	159.4	19.8	.0	.0	19.8
MACAO	92.5	62.1	.8	29.6	.0	.0	29.6
NETHERLANDS ANTILLES	105.3	38.7	42.8	23.8	.0	15.1	38.9
PANAMA	621.5	425.1	67.4	129.0	4.0	28.8	161.8
SINGAPORE	1431.8	1104.0	29.0	298.8	32.1	7.3	338.2
TOTALS	7074.4	5119.6	461.8	1493.0	148.0	184.7	1825.8
INTERNATIONAL & REGIONAL ORGANIZATIONS							
INTERNATIONAL	135.0	.0	.0	135.0	.0	10.0	145.0
LATIN AMERICAN REGIONAL	4.0	.0	.0	4.0	.0	13.0	17.0
W. EUROPEAN REGIONAL	220.0	.0	.0	220.0	.0	28.0	248.0
TOTALS	359.0	.0	.0	359.0	.0	51.0	410.0
**** GRAND **** ** TOTALS **	54258.2	12178.0	2442.6	39637.6	19799.5	1992.9	61430.1

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1339.8	1291.9	19.5	28.2	1319.0	16.0	4.7
CANADA	2111.6	1251.8	123.7	736.0	1800.8	102.1	208.6
FRANCE	2053.9	1574.1	413.2	66.5	1776.0	141.2	136.7
GERMANY, FEDERAL REPUBLIC OF	476.1	222.2	26.7	227.1	346.8	114.7	14.5
ITALY	1685.3	1116.3	402.8	166.1	1202.9	346.2	136.1
JAPAN	2670.9	2034.6	29.6	606.6	2262.1	351.5	57.3
NETHERLANDS	323.6	114.6	71.9	137.1	171.5	40.6	111.5
SWEDEN	473.5	356.6	74.5	42.4	374.8	43.7	55.0
SWITZERLAND	510.3	390.8	.3	119.1	338.8	6.5	165.0
UNITED KINGDOM	7691.5	6228.9	332.7	1129.8	6789.5	709.6	192.4
TOTALS	19336.9	14582.2	1495.3	3259.3	16382.6	1872.2	1082.0
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	1424.6	393.8	215.4	815.2	876.0	248.1	300.3
AUSTRIA	304.9	273.9	25.8	5.2	280.1	21.8	3.0
DENMARK	398.7	356.0	24.0	18.7	370.0	12.7	16.0
FINLAND	272.9	248.3	17.5	7.1	253.4	3.0	16.5
GREECE	350.6	41.1	168.7	140.8	165.8	154.3	30.5
ICELAND	19.0	19.0	.0	.0	12.3	5.7	1.0
IRELAND, REPUBLIC OF	271.6	114.6	113.7	43.2	150.4	58.7	62.4
NEW ZEALAND	274.2	28.5	23.9	221.7	170.3	50.4	53.5
NORWAY	321.3	226.5	9.0	85.7	237.5	30.0	53.8
PORTUGAL	226.0	130.3	78.0	17.7	154.9	53.0	18.0
SOUTH AFRICA	613.7	517.5	50.7	45.3	500.8	97.4	15.5
SPAIN	502.4	215.9	85.2	201.2	260.5	144.2	97.6
TURKEY	407.1	130.4	257.2	19.4	251.5	138.6	16.9
OTHER	7.3	5.8	.4	1.1	5.8	.5	1.0
TOTALS	5394.9	2702.2	1070.0	1622.6	3689.9	1018.8	686.2
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	10.0	6.0	4.0	.0	10.0	.0	.0
CZECHOSLOVAKIA	9.0	9.0	.0	.0	1.0	8.0	.0
GERMAN DEMOCRATIC REPUBLIC	45.2	25.6	5.9	13.7	28.0	16.8	.3
HUNGARY	127.3	21.5	105.8	.0	68.9	54.4	4.0
POLAND	65.5	42.3	23.2	.0	14.3	41.6	9.5
ROMANIA	15.4	3.6	11.8	.0	4.6	9.2	1.6
U.S.S.R.	11.1	3.0	.0	8.1	7.6	3.5	.0
YUGOSLAVIA	447.1	249.6	170.6	26.9	215.1	187.6	44.3
TOTALS	730.7	360.6	321.4	48.7	349.6	321.2	59.8
OPEC MEMBERS							
ALGERIA	185.7	74.2	68.4	43.1	52.7	49.7	83.2
ECUADOR	297.9	12.1	268.7	17.0	115.1	150.0	32.7
GABON	4.4	.0	4.2	.2	3.4	1.0	.0

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, DECEMBER 1985

(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
INDONESIA	304.6	78.7	94.5	131.4	208.1	51.1	45.3
IRAN	3.0	.0	.0	3.0	3.0	.0	.0
IRAQ	83.5	54.0	26.1	3.4	56.7	26.7	.1
KUWAIT	148.8	126.6	.0	22.1	143.7	5.1	.0
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	159.9	39.2	113.8	6.9	100.2	35.4	24.2
QATAR	1.0	.0	.0	1.0	1.0	.0	.0
SAUDI ARABIA	69.6	27.4	.0	42.1	64.6	4.0	1.0
UNITED ARAB EMIRATES	74.2	59.8	10.4	4.0	68.2	6.0	.0
VENEZUELA	1700.9	584.5	554.9	561.5	1434.3	259.1	7.4
TOTALS	3033.9	1056.7	1141.2	835.8	2251.4	588.3	194.0
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	1602.7	398.4	867.0	337.3	1003.1	434.7	164.9
BOLIVIA	32.4	4.6	24.8	3.0	32.3	.1	.0
BRAZIL	3933.1	1597.2	1679.4	656.4	1700.3	1414.5	818.2
CHILE	1152.4	547.1	489.5	115.7	488.5	462.2	201.6
COLOMBIA	383.8	241.6	89.5	52.6	289.0	60.2	34.4
COSTA RICA	132.0	12.9	106.6	12.5	43.0	62.2	26.7
DOMINICAN REPUBLIC	54.4	6.5	45.1	2.8	34.3	20.1	.0
EL SALVADOR	4.6	.1	1.7	2.8	4.6	.0	.0
GUATEMALA	12.8	4.9	2.0	5.9	9.1	3.7	.0
HONDURAS	33.7	7.6	21.1	5.0	19.7	11.0	3.0
JAMAICA	24.8	.0	24.8	.0	12.5	12.3	.0
MEXICO	4673.1	809.4	2149.3	1714.3	1498.2	2006.4	1168.4
NICARAGUA	38.5	.0	34.5	4.0	27.8	7.2	3.5
PARAGUAY	4.3	1.6	1.0	1.7	4.3	.0	.0
PERU	398.4	81.1	272.6	44.7	300.9	81.1	16.4
TRINIDAD AND TOBAGO	21.7	.0	21.7	.0	.0	2.0	19.7
URUGUAY	123.3	5.6	103.3	14.4	42.7	78.8	1.8
OTHER	23.2	12.4	6.4	4.4	16.6	5.6	1.0
TOTALS	12649.7	3731.2	5940.7	2977.7	5527.2	4662.5	2459.9
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	240.0	218.3	15.0	6.7	234.0	2.0	4.0
CHINA,TAIWAN	446.1	173.1	112.4	160.5	290.4	117.2	38.4
INDIA	174.3	109.9	2.2	62.2	116.0	27.5	30.8
ISRAEL	205.2	166.7	33.8	4.6	140.8	57.8	6.6
JORDAN	9.6	5.4	4.1	.1	5.4	4.2	.0
KOREA, SOUTH	2259.9	1540.4	243.0	476.5	1616.2	501.5	142.2
MALAYSIA	125.4	33.6	40.0	51.8	57.4	34.1	33.9
PAKISTAN	1.7	1.6	.0	.1	1.7	.0	.0
PHILIPPINES	1112.7	238.2	704.6	169.9	853.1	167.3	92.2
SYRIA	3.0	.0	.0	3.0	3.0	.0	.0
THAILAND	516.9	362.4	13.8	140.7	408.8	103.1	5.0

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	75.3	50.0	14.1	11.1	53.5	18.4	3.3
TOTALS	5170.7	2899.9	1183.3	1087.4	3780.7	1033.4	356.4
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	22.9	.0	.0	22.9	5.1	17.8	.0
EGYPT	236.4	214.8	12.3	9.3	143.9	92.5	.0
GHANA	1.0	.0	1.0	.0	1.0	.0	.0
IVORY COAST	42.4	.3	38.5	3.6	18.3	20.3	3.8
KENYA	.4	.4	.0	.0	.0	.4	.0
MALAWI	.3	.0	.3	.0	.1	.2	.0
MOROCO	100.6	61.6	33.3	5.7	76.9	23.7	.0
SENEGAL	2.5	.0	2.5	.0	.5	1.9	.1
SUDAN	.2	.2	.0	.0	.2	.0	.0
TUNISIA	9.4	5.8	3.6	.0	6.4	.0	3.0
ZAIRE	2.0	.0	2.0	.0	1.0	1.0	.0
ZAMBIA	4.1	.3	1.8	2.0	.5	3.5	.0
OTHER	85.2	30.2	46.0	8.9	65.9	19.3	.0
TOTALS	507.7	313.6	141.5	52.5	320.1	180.7	6.9
OFFSHORE BANKING CENTERS							
BAHAMAS	745.3	720.7	11.0	13.6	725.3	10.5	9.5
BAHRAIN	290.3	280.0	3.0	7.2	290.0	.3	.0
BERMUDA	81.4	8.1	.0	73.2	42.3	39.0	.0
BRITISH WEST INDIES	2009.8	1998.8	5.9	5.0	1999.7	10.1	.0
HONG KONG	1510.3	1068.6	5.9	435.7	1396.7	72.0	41.5
LEBANON	6.3	2.9	.0	3.4	5.9	.4	.0
LIBERIA	179.4	1.7	3.6	174.1	55.9	72.9	50.6
MACAO	92.5	73.0	.0	19.5	86.6	2.6	3.3
NETHERLANDS ANTILLES	105.3	49.7	.0	55.6	73.4	20.5	11.4
PANAMA	621.5	521.3	17.7	82.5	563.9	24.2	33.3
SINGAPORE	1431.8	1201.7	103.6	126.5	1287.5	42.7	101.6
TOTALS	7074.4	5926.8	150.9	996.6	6527.6	295.5	251.3
INTERNATIONAL & REGIONAL ORGANIZATIONS							
INTERNATIONAL	135.0	.0	135.0	.0	6.0	16.0	113.0
LATIN AMERICAN REGIONAL	4.0	.0	4.0	.0	.0	1.0	3.0
W. EUROPEAN REGIONAL	220.0	.0	220.0	.0	38.0	65.0	117.0
TOTALS	359.0	.0	359.0	.0	44.0	82.0	233.0
**** GRAND **** ** TOTALS **	54258.2	31573.5	11803.6	10881.0	38873.5	10054.8	5329.9

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: DECEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF		COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM AFTER AJUSTMENT FOR GUARANTEES
		LETTERS OF CREDIT	OTHER COMM			
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	118.2	29.5	88.7	32.2	77.6	163.6
CANADA	744.2	72.9	671.3	52.4	34.6	726.4
FRANCE	940.6	180.4	760.1	4.2	76.7	1013.2
GERMANY, FEDERAL REPUBLIC OF	257.7	94.5	163.2	20.6	196.9	434.0
ITALY	187.1	38.2	148.9	6.0	8.7	189.8
JAPAN	645.9	169.9	476.0	65.7	361.1	941.3
NETHERLANDS	192.8	44.1	148.6	56.8	30.5	166.4
SWEDEN	333.6	33.5	300.1	.1	1.1	334.6
SWITZERLAND	264.7	132.7	131.9	26.4	55.4	293.7
UNITED KINGDOM	1679.9	428.9	1250.9	356.0	299.0	1623.0
TOTALS	5365.2	1225.1	4140.0	620.5	1141.8	5886.5
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	783.3	308.2	475.1	27.3	16.3	772.3
AUSTRIA	23.7	.2	23.5	.1	14.0	37.6
DENMARK	22.0	.1	21.9	.0	19.4	41.4
FINLAND	54.9	24.9	30.0	.0	10.0	64.9
GREECE	30.3	1.5	28.8	.1	.0	30.2
ICELAND	7.3	.0	7.3	.0	.0	7.3
IRELAND, REPUBLIC OF	31.3	28.5	2.8	8.0	.0	23.3
NEW ZEALAND	160.9	34.0	126.8	.0	6.1	167.0
NORWAY	62.2	11.6	50.6	.1	1.4	63.5
PORTUGAL	116.1	9.5	106.5	75.0	.0	41.1
SOUTH AFRICA	40.5	5.7	34.8	34.8	3.4	9.1
SPAIN	96.8	49.7	47.1	7.0	.0	89.8
TURKEY	64.6	50.6	13.9	18.0	.1	46.6
OTHER	3.7	3.7	.0	.4	.0	3.3
TOTALS	1497.8	528.4	969.4	170.9	70.9	1397.8
EASTERN EUROPE						
ALBANIA	.0	.0	.0	.0	.0	.0
BULGARIA	3.0	.0	3.0	.0	.0	3.0
CZECHOSLOVAKIA	.0	.0	.0	.0	1.3	1.3
GERMAN DEMOCRATIC REPUBLIC	47.5	.0	47.5	.0	.0	47.5
HUNGARY	23.0	.0	23.0	.0	20.0	43.0
POLAND	8.7	8.7	.0	8.6	.0	.1
ROMANIA	1.2	1.2	.0	.2	.0	1.0
U.S.S.R.	10.0	.0	10.0	.0	8.5	18.5
YUGOSLAVIA	67.4	23.9	43.5	.0	.0	67.4
TOTALS	160.8	33.8	127.0	8.8	29.8	181.8
OPEC MEMBERS						
ALGERIA	62.9	38.3	24.6	.0	.0	62.9
ECUADOR	28.3	20.2	8.1	5.7	.0	22.6
GABON	1.1	.0	1.1	.0	.0	1.1
INDONESIA	114.9	24.0	90.9	16.0	3.4	102.3
IRAN	.0	.0	.0	.0	.0	.0

TABLE "II CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: DECEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	PORTION OF TOTAL CONSISTING OF OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
IRAQ	7.6	7.2	.4	.4	.0	7.2
KUWAIT	22.4	17.4	5.0	.0	.0	22.4
LIBYA	.0	.0	.0	.0	.0	.0
NIGERIA	28.0	8.3	19.7	7.8	.0	20.2
QATAR	.0	.0	.0	.0	1.0	1.0
SAUDI ARABIA	119.7	48.4	71.2	3.5	.0	116.2
UNITED ARAB EMIRATES	11.1	9.1	2.0	.0	.2	11.3
VENEZUELA	40.8	40.8	.0	4.4	.1	36.5
TOTALS	437.3	214.1	223.1	37.8	4.7	404.1
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	103.7	31.3	72.4	9.9	1.6	95.4
BOLIVIA	1.4	1.4	.0	1.3	.0	.1
BRAZIL	122.3	73.0	49.2	69.7	.6	53.2
CHILE	79.5	36.0	43.5	4.7	.0	74.8
COLOMBIA	51.3	27.3	24.0	3.0	2.7	51.0
COSTA RICA	8.6	.6	8.0	8.1	.0	.5
DOMINICAN REPUBLIC	7.1	7.1	.0	5.4	1.2	2.9
EL SALVADOR	3.8	3.8	.0	3.8	.0	.0
GUATEMALA	2.1	2.1	.0	1.8	.0	.3
HONDURAS	14.2	14.2	.0	13.1	.0	1.1
JAMAICA	.9	.9	.0	.0	.0	.9
MEXICO	256.4	201.2	55.2	65.7	.0	190.7
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	1.5	1.5	.0	.8	.0	.7
PERU	25.8	8.5	17.3	15.2	.0	10.6
TRINIDAD AND TOBAGO	.1	.1	.0	.0	.0	.1
URUGUAY	4.5	2.4	2.1	.7	.0	3.8
OTHER	5.8	5.4	.4	2.4	.0	3.4
TOTALS	689.3	417.1	272.2	205.6	6.1	489.8
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	4.0	.0	4.0	.0	5.9	9.9
CHINA,TAIWAN	95.5	85.2	10.3	4.4	16.7	107.8
INDIA	20.2	20.2	.0	.1	.1	20.2
ISRAEL	19.9	3.1	16.8	.0	.1	20.0
JORDAN	1.5	1.5	.0	.5	.1	1.1
KOREA, SOUTH	201.5	89.9	111.6	1.1	37.5	237.9
MALAYSIA	15.1	1.1	13.9	.1	.0	15.0
PAKISTAN	.6	.6	.0	.3	.0	.3
PHILIPPINES	68.6	38.0	30.5	5.8	1.9	64.7
SYRIA	7.4	7.4	.0	1.0	.0	6.4
THAILAND	115.3	64.2	51.1	.2	10.0	125.1
OTHER	18.9	13.9	5.0	2.4	5.7	22.2
TOTALS	568.7	325.3	243.4	15.9	78.0	630.9

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: DECEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	14.7	1.4	13.3	11.6	.0	3.1
EGYPT	68.6	66.6	2.0	2.0	.2	66.8
GHANA	.4	.4	.0	.0	.0	.4
IVORY COAST	2.0	.0	2.0	.0	.0	2.0
KENYA	.6	.6	.0	.6	.0	.0
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	4.0	.1	3.9	.0	.0	4.0
SENEGAL	.0	.0	.0	.0	.0	.0
SUDAN	.4	.4	.0	.4	.0	.0
TUNISIA	.0	.0	.0	.0	.0	.0
ZAIRE	.0	.0	.0	.0	.0	.0
ZAMBIA	.9	.9	.0	.0	.0	.9
OTHER	6.6	5.7	.9	.4	.0	6.2
TOTALS	98.3	76.1	22.1	15.0	.2	83.5
OFFSHORE BANKING CENTERS						
BAHAMAS	4.0	3.0	1.0	1.8	5.0	7.2
BAHRAIN	12.8	11.8	1.0	1.3	.0	11.5
BERMUDA	208.4	183.4	25.0	73.5	9.3	144.1
BRITISH WEST INDIES	5.6	4.9	.6	2.7	.0	2.8
HONG KONG	259.1	141.2	117.9	79.3	21.0	200.8
LEBANON	11.2	11.2	.0	.3	1.0	11.9
LIBERIA	9.7	4.8	4.9	.8	.0	8.9
MACAO	9.9	.9	9.0	.0	.0	9.9
NETHERLANDS ANTILLES	8.6	.1	8.5	8.5	.1	.2
PANAMA	66.0	61.5	4.5	4.3	.0	61.7
SINGAPORE	75.6	48.2	27.4	18.1	1.1	58.5
TOTALS	671.2	471.3	199.9	191.0	37.5	517.7
INTERNATIONAL & REGIONAL ORGANIZATIONS						
INTERNATIONAL	.0	.0	.0	.0	3.2	3.2
LATIN AMERICAN REGIONAL	.0	.0	.0	.0	7.0	7.0
W. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
TOTALS	.0	.0	.0	.0	10.2	10.2
**** GRAND **** ** TOTALS **	9489.0	3291.5	6197.5	1265.8	1379.3	9602.5

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985 1/
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/ 3/
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1518.4	765.1	4.5	748.8	419.4	33.6	1201.8
CANADA	2615.7	262.5	40.3	2312.8	1947.6	75.2	4335.6
FRANCE	1948.0	405.8	1.1	1540.9	1998.9	23.0	3562.9
GERMANY, FEDERAL REPUBLIC OF	575.0	138.8	4.5	431.7	1347.3	126.5	1905.6
ITALY	1715.9	102.3	9.6	1603.9	1706.2	37.7	3347.9
JAPAN	2297.5	86.0	82.7	2128.8	13663.6	761.5	16553.9
NETHERLANDS	388.8	65.9	6.4	316.5	885.5	87.7	1289.7
SWEDEN	1246.4	90.3	.0	1156.1	120.5	13.7	1290.5
SWITZERLAND	599.9	101.3	18.0	480.6	623.0	75.0	1178.7
UNITED KINGDOM	11606.3	7614.9	92.1	3899.2	1830.1	296.1	6025.4
TOTALS	24512.4	9633.3	259.3	14619.6	24542.5	1530.2	40692.4
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	663.1	57.0	29.3	576.7	1095.4	31.6	1703.8
AUSTRIA	285.4	18.0	.0	267.4	160.8	22.4	450.7
DENMARK	327.3	4.0	1.0	322.3	117.9	33.5	473.8
FINLAND	441.8	25.5	.0	416.3	110.6	8.2	535.2
GREECE	165.0	.2	6.0	158.8	10.0	4.4	173.3
ICELAND	12.9	.0	1.4	11.5	.0	.0	11.5
IRELAND, REPUBLIC OF	146.2	.0	.0	146.2	94.1	8.6	248.9
NEW ZEALAND	157.4	1.1	2.2	154.0	91.4	8.0	253.5
NORWAY	355.7	20.0	44.9	290.8	38.4	17.2	346.5
PORTUGAL	228.4	65.3	.2	162.9	97.8	.0	260.7
SOUTH AFRICA	269.8	.0	15.9	253.9	12.6	18.0	284.6
SPAIN	612.3	60.8	.1	551.3	240.0	10.9	802.2
TURKEY	215.2	.0	35.6	179.6	.0	.0	179.6
OTHER	17.9	.0	3.0	14.9	39.8	6.3	61.0
TOTALS	3899.2	252.1	139.7	3507.3	2109.2	169.1	5785.8
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	5.0	.0	5.0
BULGARIA	3.0	.0	.0	3.0	.0	.0	3.0
CZECHOSLOVAKIA	17.1	.0	.0	17.1	.0	.0	17.1
GERMAN DEMOCRATIC REPUBLIC	44.3	.0	.0	44.3	121.6	.4	166.3
HUNGARY	93.4	6.0	3.4	84.0	.0	1.0	85.0
POLAND	82.4	.9	.0	81.5	.0	.0	81.5
ROMANIA	14.3	.0	.0	14.3	.0	2.9	17.2
U.S.S.R.	12.7	.0	.0	12.7	.0	.0	12.7
YUGOSLAVIA	428.8	7.6	40.4	380.8	.0	7.6	388.4
TOTALS	896.4	14.5	43.8	638.1	126.6	11.9	776.6
OPEC MEMBERS							
ALGERIA	44.2	.0	.0	44.2	.0	.0	44.2
ECUADOR	479.4	1.3	26.3	451.7	4.0	.0	455.7

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985 1/

TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/ 3/

(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)

(AMOUNTS IN MILLIONS OF DOLLARS)

ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
GABON	5.4	.0	.0	5.4	.0	.1	5.5
INDONESIA	142.6	10.0	10.0	122.5	20.0	11.7	154.2
IRAN	10.5	.0	.0	10.5	.0	.0	10.5
IRAQ	54.0	19.0	.0	35.0	.0	.0	35.0
KUWAIT	65.1	15.0	5.0	45.1	53.0	.0	98.1
LIBYA	16.1	.0	13.1	3.0	.0	.0	3.0
NIGERIA	135.2	5.0	23.7	106.5	.0	.0	106.5
QATAR	1.0	.0	0	1.0	.0	.0	1.0
SAUDI ARABIA	66.2	.0	14.9	51.3	25.0	1.3	77.6
UNITED ARAB EMIRATES	32.5	.0	.0	32.5	37.0	.0	69.5
VENEZUELA	1261.9	2.4	74.0	1185.4	17.3	2.1	1204.9
TOTALS	2314.5	52.7	167.2	2094.6	156.3	15.2	2266.2
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	933.2	7.8	34.6	890.7	28.1	3.9	922.7
BOLIVIA	21.8	.3	1.8	19.7	.0	.0	19.7
BRAZIL	3312.4	48.7	125.7	3138.0	307.4	8.1	3453.6
CHILE	1349.6	1.2	62.2	1286.1	1.0	5.0	1292.2
COLOMBIA	317.8	7.1	7.4	303.2	8.0	.0	311.2
COSTA RICA	99.0	.0	13.3	85.7	.0	.0	85.7
DOMINICAN REPUBLIC	73.5	1.0	9.4	63.0	.0	.0	63.0
EL SALVADOR	58.6	23.0	10.6	25.0	.0	.1	25.1
GUATEMALA	85.6	33.0	33.1	19.5	.0	.1	19.6
HONDURAS	32.9	8.5	4.3	20.0	.0	.0	20.0
JAMAICA	25.6	.0	7.8	17.8	.0	.0	17.8
MEXICO	6173.9	136.9	509.4	5527.5	362.2	35.4	5925.2
NICARAGUA	7.0	.0	.0	7.0	.0	.0	7.0
PARAGUAY	13.4	.1	.0	13.3	.0	.0	13.3
PERU	299.5	7.7	12.1	279.6	5.3	.0	284.9
TRINIDAD AND TOBAGO	6.5	.0	.0	6.5	.0	.0	6.5
URUGUAY	75.8	.0	4.7	71.1	.0	.0	71.1
OTHER	75.6	63.0	4.2	8.4	3.0	1.4	12.9
TOTALS	12962.4	338.4	841.1	11782.9	715.1	54.1	12552.2
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA, MAINLAND	64.6	.0	.0	64.6	54.7	.0	119.3
CHINA, TAIWAN	345.9	2.0	.3	343.6	60.0	23.1	426.7
INDIA	24.5	.0	.0	24.5	160.9	4.4	189.8
ISRAEL	493.5	4.0	.6	488.9	173.8	277.0	939.7
JORDAN	8.4	.0	.0	8.4	91.5	3.0	102.9
KOREA, SOUTH	1826.2	83.4	27.5	1715.2	527.1	127.1	2369.5
MALAYSIA	65.1	1.0	.3	63.8	20.0	1.0	84.8
PAKISTAN	14.7	.0	.5	14.1	5.0	.0	19.1
PHILIPPINES	514.8	16.0	38.0	460.8	18.5	4.5	483.8

COUNTRY EXPOSURE LENDING SURVEY: DECEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
SYRIA	13.5	.0	.0	13.5	.0	.0	13.5
THAILAND	157.8	9.5	.8	147.5	108.2	.6	256.3
OTHER	112.8	10.0	.0	102.8	.0	.0	102.8
TOTALS	3642.3	125.9	68.1	3448.2	1219.7	440.7	5108.7
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	22.6	.0	1.0	21.6	.0	.0	21.6
EGYPT	116.5	14.0	3.9	98.6	16.0	.1	114.7
GHANA	1.8	.0	1.8	.0	.0	.0	.0
IVORY COAST	62.8	.0	2.9	59.9	.0	.0	59.9
KENYA	1.0	.0	1.0	.0	.0	.0	.0
MALAWI	2.2	.0	.0	2.2	.0	.0	2.2
MOROCO	146.7	.0	.0	146.7	5.0	.0	151.7
SENEGAL	2.5	.0	.0	2.5	.0	.0	2.5
SUDAN	5.5	.0	.0	5.5	.0	.0	5.5
TUNISIA	4.2	.0	2.2	2.0	.0	.0	2.0
ZAIRE	.5	.0	.5	.0	.0	.0	.0
ZAMBIA	2.2	.0	1.8	.4	.0	.0	.4
OTHER	82.4	4.2	8.1	70.1	.0	4.3	74.5
TOTALS	451.4	18.2	23.2	410.0	21.0	4.6	435.5
OFFSHORE BANKING CENTERS							
BAHAMAS	3316.8	3226.5	28.3	62.0	16.0	2.5	80.6
BAHRAIN	147.8	63.0	.0	84.8	19.5	.8	105.1
BERMUDA	52.5	5.0	5.4	42.1	.1	4.6	46.9
BRITISH WEST INDIES	4712.8	4621.0	20.2	71.4	6.5	19.0	96.9
HONG KONG	964.7	548.7	22.0	394.0	145.0	29.1	568.1
LEBANON	10.0	.0	.0	10.0	3.2	.0	13.2
LIBERIA	121.7	.0	113.1	8.6	.0	4.9	13.5
MACAO	.0	.0	.0	.0	.0	.0	.0
NETHERLANDS ANTILLES	172.0	68.7	56.8	46.4	30.0	11.1	87.5
PANAMA	567.6	255.9	137.9	173.6	.0	9.7	183.3
SINGAPORE	1178.8	1102.7	2.5	73.5	90.7	.1	164.6
TOTALS	11245.0	9891.7	386.4	966.8	311.0	81.9	1359.9
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
ASIAN REGIONAL	3.0	.0	.0	3.0	.0	.0	3.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	78.6	.0	2.0	76.6	.0	5.0	81.6
LATIN AMERICAN REGIONAL	11.1	.0	.0	11.1	.0	.0	11.1
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	30.0	.0	.0	30.0	.0	.0	30.0
TOTALS	122.7	.0	2.0	120.7	.0	5.0	125.7
GRAND TOTALS	59846.6	20327.1	1931.0	37588.4	29201.7	2313.0	69103.2

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1518.4	1403.8	80.8	33.7	1410.0	49.8	58.6
CANADA	2615.7	2174.0	130.0	311.6	2156.7	226.2	232.7
FRANCE	1948.0	1771.2	89.5	87.2	1571.8	222.9	153.2
GERMANY, FEDERAL REPUBLIC OF	575.0	448.7	68.0	58.3	350.9	213.3	10.8
ITALY	1715.9	1277.3	313.1	125.4	1134.6	375.2	206.0
JAPAN	2297.5	2134.4	4.0	159.0	2080.9	128.1	88.5
NETHERLANDS	388.8	316.7	2.9	69.1	312.3	29.9	46.5
SWEDEN	1246.4	1014.9	183.0	48.4	1077.2	38.8	130.4
SWITZERLAND	599.9	477.8	10.8	111.3	553.2	23.8	22.9
UNITED KINGDOM	11606.3	10689.0	272.7	644.6	10829.5	557.9	218.9
TOTALS	24512.4	21708.3	1155.0	1649.0	21477.4	1866.2	1168.7
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	663.1	249.2	7.6	406.3	501.0	67.0	95.0
AUSTRIA	285.4	224.7	59.6	1.1	218.3	21.0	46.1
DENMARK	327.3	259.2	31.0	37.1	266.5	47.1	13.6
FINLAND	441.8	401.4	24.2	16.2	399.4	28.4	14.0
GREECE	165.0	10.7	89.1	65.1	71.5	53.3	40.2
ICELAND	12.9	8.5	2.8	1.6	7.7	5.2	.0
IRELAND, REPUBLIC OF	146.2	52.5	92.6	1.0	69.5	35.4	41.2
NEW ZEALAND	157.4	32.6	47.5	77.3	103.5	39.8	14.1
NORWAY	355.7	272.4	4.5	78.8	278.2	51.8	25.7
PORTUGAL	228.4	109.7	103.3	15.4	120.0	102.5	5.9
SOUTH AFRICA	269.8	151.0	36.4	82.4	228.0	38.1	3.7
SPAIN	612.3	211.6	180.1	220.5	270.4	243.9	97.9
TURKEY	215.2	45.5	166.9	2.7	95.8	115.3	4.0
OTHER	17.9	6.1	.9	10.8	13.0	4.8	.0
TOTALS	3899.2	2035.6	846.8	1016.6	2643.6	854.0	401.4
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	3.0	.0	3.0	.0	3.0	.0	.0
CZECHOSLOVAKIA	17.1	4.0	13.1	.0	8.5	8.6	.0
GERMAN DEMOCRATIC REPUBLIC	44.3	36.4	1.8	6.0	40.9	3.4	.0
HUNGARY	93.4	17.3	75.1	.8	49.9	35.5	8.0
POLAND	82.4	30.5	50.9	1.0	26.2	37.6	18.5
ROMANIA	14.3	5.9	8.4	.0	1.5	12.7	.0
U.S.S.R.	12.7	.2	12.5	.0	2.1	10.6	.0
YUGOSLAVIA	428.8	192.5	178.2	58.0	170.6	211.9	46.2
TOTALS	696.4	287.0	343.3	65.9	302.9	320.6	72.8
OPEC MEMBERS							
ALGERIA	44.2	14.5	28.0	1.6	13.5	20.6	10.0
ECUADOR	479.4	46.4	406.1	26.8	187.0	252.6	39.6
GABON	5.4	.0	5.4	.0	3.7	1.6	.2

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS. DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
INDONESIA	142.6	32.0	68.6	42.0	76.1	48.8	17.6
IRAN	10.5	10.0	.0	.5	10.5	.0	.0
IRAQ	54.0	53.0	.0	1.0	39.0	15.0	.0
KUWAIT	65.1	38.5	4.9	21.6	60.4	4.7	.0
LIBYA	16.1	3.0	.0	13.1	4.1	5.0	7.0
NIGERIA	135.2	23.4	101.2	10.6	78.6	56.0	.6
QATAR	1.0	.0	.0	1.0	.0	.0	1.0
SAUDI ARABIA	66.2	6.9	3.7	55.5	57.2	9.0	.0
UNITED ARAB EMIRATES	32.5	18.5	.0	14.0	25.3	2.2	5.0
VENEZUELA	1261.9	264.6	541.6	456.6	1039.7	178.5	43.6
TOTALS	2514.5	510.9	1150.8	646.7	1595.5	594.0	124.8
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	935.2	233.5	556.6	145.2	661.0	550.8	138.5
BOLIVIA	21.8	5.7	8.6	7.6	15.1	4.7	2.0
BRAZIL	3512.4	1351.6	1550.9	610.0	1527.0	1201.5	783.0
CHILE	1349.6	722.1	483.2	144.2	610.0	447.6	292.1
COLOMBIA	317.8	90.6	135.6	91.6	170.9	110.2	36.6
COSTA RICA	99.0	16.5	72.8	9.6	38.6	50.7	9.6
DOMINICAN REPUBLIC	73.5	2.0	35.0	36.4	42.5	22.5	8.4
EL SALVADOR	58.6	43.5	9.8	5.2	38.2	20.3	.0
GUATEMALA	85.6	39.0	36.3	10.2	48.6	36.8	.2
HONDURAS	32.9	15.1	10.6	7.3	24.7	7.1	1.0
JAMAICA	25.6	2.0	23.6	.0	11.1	14.4	.1
MEXICO	6173.9	1884.9	3225.7	1063.2	1875.1	2423.7	1875.0
NICARAGUA	7.0	.0	7.0	.0	3.0	2.9	1.1
PARAGUAY	13.4	2.0	2.3	9.1	2.5	10.9	.0
PERU	299.5	51.8	215.8	31.8	211.4	73.8	14.2
TRINIDAD AND TOBAGO	6.5	.0	6.5	.0	.0	6.5	.0
URUGUAY	75.0	7.6	43.3	24.0	41.7	33.0	.1
OTHER	75.6	63.0	12.0	.6	73.6	2.0	.0
TOTALS	12962.4	3651.4	6433.6	2877.6	4799.5	5079.8	3083.1
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	66.6	43.7	9.8	11.9	56.1	7.8	2.6
CHINA,TAIWAN	345.9	180.5	62.3	103.0	258.6	75.0	12.3
INDIA	24.5	12.3	6.0	6.1	12.6	7.1	4.7
ISRAEL	493.5	285.1	163.7	44.6	288.7	178.9	25.8
JORDAN	8.4	8.3	.0	.1	8.4	.0	.0
KOREA, SOUTH	1826.2	1365.4	336.6	124.1	1309.2	407.8	109.2
MALAYSIA	65.1	12.4	46.1	6.5	13.7	21.7	29.6
PAKISTAN	14.7	1.1	5.0	8.5	10.1	4.5	.0
PHILIPPINES	514.8	144.8	296.3	73.6	271.6	164.2	78.9
SYRIA	13.5	12.0	1.5	.0	13.5	.0	.0
THAILAND	157.8	127.3	3.0	27.5	147.6	7.4	2.7

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, DECEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	112.8	60.4	22.1	30.2	67.0	31.9	13.9
TOTALS	3642.3	2253.6	952.1	436.5	2455.5	906.7	280.0
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	22.6	.8	3.9	17.9	8.5	14.1	.0
EGYPT	116.5	94.3	14.0	8.2	81.1	35.4	.0
GHANA	1.8	.0	1.8	.0	.4	1.4	.0
IVORY COAST	62.8	.4	56.7	5.7	12.1	41.0	9.6
KENYA	1.0	.0	.0	1.0	.0	1.0	.0
MALAWI	2.2	.0	2.2	.0	1.0	1.1	.0
MOROCCO	146.7	86.0	49.7	11.0	45.4	100.3	1.0
SENEGAL	2.5	.0	2.5	.0	.1	2.4	.0
SUDAN	5.5	.0	1.5	4.0	1.0	4.0	.5
TUNISIA	4.2	2.0	1.6	.6	4.2	.0	.0
ZAIRE	.5	.0	.5	.0	.2	.3	.0
ZAMBIA	2.2	.0	.3	1.9	1.1	1.1	.0
OTHER	82.4	6.7	50.7	27.0	56.0	16.8	9.5
TOTALS	451.4	188.2	185.8	77.3	211.6	219.0	20.7
OFFSHORE BANKING CENTERS							
BAHAMAS	3316.8	3277.4	8.8	30.5	3250.5	37.1	29.3
BAHRAIN	147.8	147.8	.0	.0	147.8	.0	.0
BERMUDA	52.5	28.5	.5	23.5	35.7	13.8	3.0
BRITISH WEST INDIES	4712.8	4683.7	14.6	14.3	4641.8	38.8	32.1
HONG KONG	964.7	827.1	1.4	136.2	925.6	20.7	18.4
LEBANON	10.0	4.7	3.0	2.2	10.0	.0	.0
LIBERIA	121.7	2.4	2.0	117.3	41.8	66.5	13.4
MACAO	.0	.0	.0	.0	.0	.0	.0
NETHERLANDS ANTILLES	172.0	81.1	4.0	86.9	96.6	38.6	36.7
PANAMA	567.6	269.4	104.8	193.2	405.0	109.8	52.7
SINGAPORE	1178.8	1165.3	8.5	5.0	1159.6	14.1	5.0
TOTALS	11245.0	10487.8	147.7	609.4	10714.5	339.7	190.8
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
ASIAN REGIONAL	3.0	.0	3.0	.0	1.0	.0	2.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	78.6	.0	78.6	.0	29.0	19.5	30.1
LATIN AMERICAN REGIONAL	11.1	.0	11.1	.0	.0	.0	11.1
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	30.0	.0	30.0	.0	15.0	17.0	.0
TOTALS	122.7	.0	122.7	.0	45.0	36.5	43.2
GRAND TOTALS	59846.6	41123.1	11346.0	7377.3	44243.9	10216.8	5385.8

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington DC 20429

OFFICE OF THE CHAIRMAN

April 7, 1986

RECEIVED

APR 8 1986

Subcommittee on Financial Institutions

Honorable Fernand J. St Germain
Chairman,
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance
Committee on Banking, Finance
and Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We are enclosing the statistical information you requested in your letter of March 17 as modified to reflect subsequent discussions with your staff on the form, content, and availability of the information to be submitted. Interagency meetings have been held to coordinate the compilation of the information and to eliminate duplication of effort. It was agreed that the same information would be provided by the Federal Reserve Board and the Comptroller of the Currency.

Please let us know if we can be of further assistance.

Sincerely,

L. Wm Seidman

L. William Seidman
Chairman

Enclosure(s)

RECEIVED

APR 8 1986

Subcommittee on Financial Institutions

STATISTICAL INFORMATION REQUESTED BY
THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE HOUSE COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS

Submitted by:

Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Reserve Board

April 4, 1986

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR INSURED COMMERCIAL BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF INSURED COMMERCIAL BANK AGRICULTURAL LOANS
ALABAMA	$372.8	0.8%
ALASKA	11.8	0.0
ARIZONA	569.3	1.2
ARKANSAS	691.6	1.5
CALIFORNIA	4,117.7	8.7
COLORADO	925.7	1.9
CONNECTICUT	26.4	0.1
DELAWARE	53.3	0.1
D.C.	13.3	0.0
FLORIDA	561.9	1.2
GEORGIA	611.6	1.3
HAWAII	51.3	0.1
IDAHO	694.0	1.5
ILLINOIS	3,046.4	6.4
INDIANA	1,640.1	3.5
IOWA	3,855.5	8.1
KANSAS	2,552.4	5.4
KENTUCKY	1,113.5	2.3
LOUISIANA	542.7	1.1
MAINE	28.6	0.1
MARYLAND	219.2	0.5
MASSACHUSETTS	55.9	0.1
MICHIGAN	789.8	1.7
MINNESOTA	2,440.2	5.1
MISSISSIPPI	635.6	1.3
MISSOURI	1,919.2	4.0
MONTANA	754.0	1.6
NEBRASKA	2,862.4	6.0
NEVADA	16.4	0.0
NEW HAMPSHIRE	5.4	0.0
NEW JERSEY	33.9	0.1
NEW MEXICO	271.1	0.6
NEW YORK	1,082.9	2.3
NORTH CAROLINA	445.6	0.9
NORTH DAKOTA	1,021.8	2.2
OHIO	1,054.5	2.2
OKLAHOMA	1,604.4	3.4
OREGON	392.6	0.8
PENNSYLVANIA	699.6	1.5
RHODE ISLAND	7.0	0.0
SOUTH CAROLINA	129.3	0.3
SOUTH DAKOTA	1,341.8	2.8
TENNESSEE	666.7	1.4
TEXAS	3,969.6	8.4
UTAH	135.3	0.3
VERMONT	57.6	0.1
VIRGINIA	374.0	0.8
WASHINGTON	961.6	2.0
WEST VIRGINIA	84.7	0.2
WISCONSIN	1,680.7	3.5
WYOMING	281.0	0.6
TOTAL	$47,473.5	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(A)

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR NATIONAL BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF NATIONAL BANK AGRICULTURAL LOANS
ALABAMA	$93.3	0.4%
ALASKA	5.8	0.0
ARIZONA	493.2	2.3
ARKANSAS	277.3	1.3
CALIFORNIA	3,469.1	15.9
COLORADO	583.3	2.7
CONNECTICUT	20.3	0.1
DELAWARE	1.8	0.0
D.C.	13.3	0.1
FLORIDA	284.0	1.3
GEORGIA	142.5	0.7
HAWAII	0.0	0.0
IDAHO	419.4	1.9
ILLINOIS	1,361.4	6.3
INDIANA	463.3	2.1
IOWA	814.4	3.7
KANSAS	892.8	4.1
KENTUCKY	325.6	1.5
LOUISIANA	104.4	0.5
MAINE	14.5	0.1
MARYLAND	150.6	0.7
MASSACHUSETTS	38.1	0.2
MICHIGAN	202.9	0.9
MINNESOTA	783.3	3.6
MISSISSIPPI	157.4	0.7
MISSOURI	457.8	2.1
MONTANA	377.7	1.7
NEBRASKA	1,334.2	6.1
NEVADA	13.2	0.1
NEW HAMPSHIRE	1.8	0.0
NEW JERSEY	23.4	0.1
NEW MEXICO	161.2	0.7
NEW YORK	617.7	2.8
NORTH CAROLINA	241.2	1.1
NORTH DAKOTA	345.7	1.6
OHIO	545.1	2.5
OKLAHOMA	874.9	4.0
OREGON	269.5	1.2
PENNSYLVANIA	354.3	1.6
RHODE ISLAND	6.9	0.0
SOUTH CAROLINA	59.9	0.3
SOUTH DAKOTA	590.0	2.7
TENNESSEE	195.3	0.9
TEXAS	2,499.3	11.5
UTAH	92.5	0.4
VERMONT	20.4	0.1
VIRGINIA	197.6	0.9
WASHINGTON	796.7	3.7
WEST VIRGINIA	32.8	0.2
WISCONSIN	359.8	1.7
WYOMING	174.8	0.8
TOTAL	$21,755.9	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

DCC (4/86)

AGRICULTURE: ITEM II(A)

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR STATE MEMBER BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF STATE MEMBER BANK AGRICULTURAL LOANS
ALABAMA	$45.3	1.2%
ALASKA	00.0	0.0
ARIZONA	3.3	0.1
ARKANSAS	11.3	0.3
CALIFORNIA	236.4	6.3
COLORADO	137.9	3.7
CONNECTICUT	00.0	0.0
DELAWARE	15.0	0.4
D.C.	00.0	0.0
FLORIDA	60.2	1.6
GEORGIA	23.6	0.6
HAWAII	00.0	0.0
IDAHO	58.8	1.6
ILLINOIS	218.9	5.8
INDIANA	208.0	5.5
IOWA	308.8	8.2
KANSAS	127.0	3.4
KENTUCKY	133.7	3.6
LOUISIANA	33.2	0.9
MAINE	2.3	0.1
MARYLAND	2.2	0.1
MASSACHUSETTS	16.4	0.4
MICHIGAN	234.7	6.2
MINNESOTA	90.3	2.4
MISSISSIPPI	4.4	0.1
MISSOURI	126.1	3.4
MONTANA	164.7	4.4
NEBRASKA	41.9	1.1
NEVADA	00.0	0.0
NEW HAMPSHIRE	0.2	0.0
NEW JERSEY	1.5	0.0
NEW MEXICO	8.1	0.2
NEW YORK	405.6	10.8
NORTH CAROLINA	00.0	0.0
NORTH DAKOTA	17.4	0.5
OHIO	262.1	7.0
OKLAHOMA	59.6	1.6
OREGON	11.7	0.3
PENNSYLVANIA	13.1	0.3
RHODE ISLAND	00.0	0.0
SOUTH CAROLINA	3.6	0.1
SOUTH DAKOTA	225.0	6.0
TENNESSEE	35.7	0.9
TEXAS	142.5	3.8
UTAH	12.5	0.3
VERMONT	00.0	0.0
VIRGINIA	111.5	3.0
WASHINGTON	5.1	0.1
WEST VIRGINIA	19.8	0.5
WISCONSIN	67.8	1.8
WYOMING	53.4	1.4
TOTAL	$3,760.4	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF BANK AGRICULTURAL LOANS BY STATE

DATA FOR STATE NON-MEMBER BANKS

(Dollars in Millions)

STATE	TOTAL AGRICULTURAL LOANS	PERCENT OF STATE NON-MEMBER BANK AGRICULTURAL LOANS
ALABAMA	$234.2	1.1%
ALASKA	5.9	0.0
ARIZONA	72.7	0.3
ARKANSAS	403.0	1.8
CALIFORNIA	412.3	1.9
COLORADO	204.5	0.9
CONNECTICUT	6.1	0.0
DELAWARE	36.5	0.2
D.C.	00.0	0.0
FLORIDA	217.8	1.0
GEORGIA	445.5	2.0
HAWAII	51.2	0.2
IDAHO	215.8	1.0
ILLINOIS	1,466.1	6.7
INDIANA	968.8	4.4
IOWA	2,732.3	12.4
KANSAS	1,532.6	7.0
KENTUCKY	654.2	3.0
LOUISIANA	405.2	1.8
MAINE	11.8	0.1
MARYLAND	66.4	0.3
MASSACHUSETTS	1.3	0.0
MICHIGAN	352.1	1.6
MINNESOTA	1,566.6	7.1
MISSISSIPPI	473.8	2.2
MISSOURI	1,335.4	6.1
MONTANA	211.6	1.0
NEBRASKA	1,486.2	6.8
NEVADA	3.2	0.0
NEW HAMPSHIRE	3.3	0.0
NEW JERSEY	9.0	0.0
NEW MEXICO	101.8	0.5
NEW YORK	59.6	0.3
NORTH CAROLINA	204.4	0.9
NORTH DAKOTA	658.7	3.0
OHIO	247.3	1.1
OKLAHOMA	669.9	3.1
OREGON	111.4	0.5
PENNSYLVANIA	332.2	1.5
RHODE ISLAND	0.1	0.0
SOUTH CAROLINA	65.8	0.3
SOUTH DAKOTA	526.7	2.4
TENNESSEE	435.8	2.0
TEXAS	1,327.8	6.0
UTAH	30.3	0.1
VERMONT	37.1	0.2
VIRGINIA	65.0	0.3
WASHINGTON	159.8	0.7
WEST VIRGINIA	32.0	0.1
WISCONSIN	1,253.2	5.7
WYOMING	52.8	0.2
TOTAL	$21,957.2	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: DECEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	147.0	65.2	81.8	11.4	10.3	145.9
CANADA	209.1	38.1	171.0	7.6	65.5	267.0
FRANCE	446.7	98.9	347.8	10.7	89.9	526.0
GERMANY, FEDERAL REPUBLIC OF	157.1	94.3	62.7	.2	49.7	206.6
ITALY	156.7	8.2	148.5	4.0	3.1	155.9
JAPAN	425.7	125.8	299.9	1.4	347.2	771.5
NETHERLANDS	65.7	14.7	51.0	.0	52.3	118.0
SWEDEN	171.5	1.0	170.5	.0	8.0	179.5
SWITZERLAND	99.9	54.3	45.6	13.9	9.7	95.8
UNITED KINGDOM	632.3	306.7	325.6	22.4	194.8	804.7
TOTALS	2512.1	807.6	1704.4	71.6	830.8	3271.3
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	145.5	79.2	66.3	.0	48.2	193.7
AUSTRIA	29.3	10.3	19.0	.0	10.2	39.5
DENMARK	55.8	20.8	35.0	.0	14.0	69.8
FINLAND	51.9	3.0	48.9	.0	3.0	54.9
GREECE	8.5	.0	8.5	.0	.2	8.7
ICELAND	3.0	.0	3.0	.9	.0	2.1
IRELAND, REPUBLIC OF	4.5	2.0	2.5	.9	.0	3.6
NEW ZEALAND	48.6	23.5	25.1	7.7	5.4	46.3
NORWAY	19.5	12.9	6.6	2.0	26.6	44.1
PORTUGAL	9.4	1.0	8.4	.0	.0	9.4
SOUTH AFRICA	10.2	9.1	1.1	.6	.0	9.6
SPAIN	115.7	31.1	84.6	1.0	9.4	124.1
TURKEY	21.4	9.6	11.8	4.0	.0	17.4
OTHER	15.1	2.1	13.0	13.0	.0	2.1
TOTALS	538.8	204.8	334.0	30.1	117.0	625.7
EASTERN EUROPE						
ALBANIA	.0	.0	.0	.0	.0	.0
BULGARIA	1.3	1.3	.0	.0	.0	1.3
CZECHOSLOVAKIA	.0	.0	.0	.0	.0	.0
GERMAN DEMOCRATIC REPUBLIC	6.9	.4	6.5	.0	.0	6.9
HUNGARY	31.1	15.0	16.1	10.0	.0	21.1
POLAND	.8	.0	.8	.1	.0	.7
ROMANIA	.0	.0	.0	.0	.0	.0
U.S.S.R.	10.0	.0	10.0	.0	.0	10.0
YUGOSLAVIA	38.1	3.5	34.6	18.3	.9	20.7
TOTALS	88.2	20.2	68.0	28.4	.9	60.7
OPEC MEMBERS						
ALGERIA	7.6	1.0	6.6	.0	.0	7.6
ECUADOR	75.1	37.5	37.6	13.4	1.5	63.2
GABON	2.3	1.0	1.3	.0	.0	2.3
INDONESIA	67.8	45.5	22.3	34.2	11.8	45.4
IRAN	.0	.0	.0	.0	.0	.0

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, DECEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
IRAQ	11.0	11.0	.0	.0	1.0	12.0
KUWAIT	26.8	8.8	18.0	2.0	.0	24.8
LIBYA	6.0	2.0	4.0	.0	.0	6.0
NIGERIA	24.0	13.7	10.3	9.1	.0	14.9
QATAR	.2	.2	.0	.0	.0	.2
SAUDI ARABIA	50.3	18.3	31.9	3.6	3.2	49.8
UNITED ARAB EMIRATES	2.3	2.2	.0	.0	.3	2.6
VENEZUELA	33.9	32.4	1.5	13.6	.0	20.3
TOTALS	307.7	173.9	133.7	76.0	17.8	249.5
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	45.8	20.4	25.3	7.4	.0	38.3
BOLIVIA	1.7	1.7	.0	.7	.7	1.7
BRAZIL	154.7	38.9	115.7	45.9	.0	108.7
CHILE	80.6	38.9	41.6	15.2	.2	65.6
COLOMBIA	28.8	23.6	5.2	.0	.0	28.8
COSTA RICA	26.5	6.8	19.7	23.4	.0	3.0
DOMINICAN REPUBLIC	2.7	2.7	.0	.0	.0	2.7
EL SALVADOR	63.0	63.0	.0	27.6	.4	35.8
GUATEMALA	30.7	22.5	8.2	12.3	.3	18.7
HONDURAS	21.4	21.4	.0	9.8	.0	11.5
JAMAICA	6.9	2.5	4.4	1.0	.0	5.9
MEXICO	232.4	167.9	64.4	33.0	.0	199.4
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	.4	.4	.0	.4	.0	.0
PERU	28.8	27.1	1.6	11.4	.0	17.3
TRINIDAD AND TOBAGO	9.2	.0	9.2	8.7	.0	.5
URUGUAY	3.4	1.7	1.6	.7	.0	2.6
OTHER	3.1	1.6	1.4	2.0	.0	1.1
TOTALS	740.6	441.8	298.8	199.9	1.6	542.3
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA, MAINLAND	1.6	.0	1.6	.0	.6	2.2
CHINA, TAIWAN	59.0	50.0	9.0	.2	14.7	73.5
INDIA	19.3	17.1	2.2	.0	1.0	20.3
ISRAEL	58.7	49.7	9.0	11.1	12.1	59.7
JORDAN	19.4	4.4	15.0	.0	.0	19.4
KOREA, SOUTH	126.2	64.8	61.4	9.0	11.3	128.5
MALAYSIA	.5	.5	.0	.0	.0	.5
PAKISTAN	2.1	1.1	1.0	.0	.0	2.1
PHILIPPINES	122.8	78.8	43.9	.0	.0	122.8
SYRIA	6.0	2.0	4.0	.0	.0	6.0
THAILAND	21.6	9.4	12.2	.0	.0	21.6
OTHER	.1	.1	.0	.0	.0	.1
TOTALS	437.6	278.2	159.4	20.3	39.7	457.1

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, DECEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	.6	.6	.0	.0	.0	.6
EGYPT	90.3	66.7	23.6	11.9	.0	78.4
GHANA	.0	.0	.0	.0	.0	.0
IVORY COAST	3.5	3.4	.1	.0	.0	3.5
KENYA	.0	.0	.0	.0	.0	.0
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	28.0	23.0	5.0	2.0	.0	26.0
SENEGAL	.0	.0	.0	.0	.0	.0
SUDAN	20.0	20.0	.0	.0	.0	20.0
TUNISIA	1.0	.0	1.0	.0	.0	1.0
ZAIRE	.0	.0	.0	.0	.0	.0
ZAMBIA	.0	.0	.0	.0	.0	.0
OTHER	21.2	6.9	14.3	2.6	.0	18.6
TOTALS	164.7	120.7	44.0	16.5	.0	148.2
OFFSHORE BANKING CENTERS						
BAHAMAS	23.9	14.9	9.0	13.0	.0	10.9
BAHRAIN	4.6	4.6	.0	.0	.0	4.6
BERMUDA	367.5	362.2	5.3	218.2	.0	149.3
BRITISH WEST INDIES	5.1	5.1	.0	2.8	1.0	3.3
HONG KONG	126.6	92.3	34.3	25.3	10.5	111.8
LEBANON	25.5	15.5	10.0	.0	.1	25.7
LIBERIA	14.3	6.7	7.6	13.3	.0	1.1
MACAO	.0	.0	.0	.0	.0	.0
NETHERLANDS ANTILLES	48.8	24.9	23.9	21.9	16.1	43.0
PANAMA	53.3	38.5	14.7	25.5	2.4	30.1
SINGAPORE	63.8	57.8	6.0	50.0	.0	13.8
TOTALS	733.7	622.8	110.9	370.0	30.3	394.0
INTERNATIONAL & REGIONAL ORGANIZATIONS						
AFRICAN REGIONAL	1.1	.0	1.1	.0	.0	1.1
ASIAN REGIONAL	.0	.0	.0	.0	.0	.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
INTERNATIONAL	1.4	1.2	.1	.0	2.4	3.8
LATIN AMERICAN REGIONAL	.0	.0	.0	.0	1.3	1.5
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
TOTALS	2.5	1.2	1.2	.0	4.0	6.5
**** GRAND **** ** TOTALS **	5526.3	2671.5	2854.7	813.0	1042.3	5755.6

1/ All data are on a fully consolidated basis and cover 195 U.S. banking organizations.

2/ The data in the table cover only cross-border and non-local currency lending. These result from a U.S. bank's office in one country lending to residents of another country or lending in a currency other than that of the borrower's country.

3/ In addition to the lending covered in the tables, banks reported $106.6 billion in local currency loans and other claims and $69.8 billion in local currency liabilities held by their foreign offices on residents of the country in which the office was located (e.g., Deutsche Mark loans to German residents booked at the German branch of the reporting U.S. bank). These types of local currency assets are excluded from the data in the tables.

4/ These columns show the amount owed to U.S. banks by borrowers residing in one country that is guaranteed by residents of another country. The guarantor can be a government entity, a bank, or a private non-bank entity. Amounts owed U.S. banks by a branch in the reported country, where the head office of the borrowing bank is outside the reported country, are treated as being guaranteed and are included in column 2.

5/ Includes amounts borrowed by the foreign branches of banks headquartered in the reported country. Also, includes guarantees and similar instruments issued by the reported country's banks that cover repayment of borrowing by non-residents.

6/ Amount guaranteed by non-bank entities in the reported country that cover amounts owed U.S. banks by borrowers located outside of the reported country (e.g., a guarantee issued by a German company to cover a U.S. bank borrowing by its Belgian subsidiary would be reported in this column on the German country line).

The total capital of the reporting banks, including equity, subordinated debentures, and reserves for loan losses is: all reporting banks $105.4 billion; nine money center banks $42.3 billion; fifteen other large banks $20.6 billion; and all other reporting banks $42.5 billion.

The total assets of the reporting banks are: all reporting banks, $1,529 billion; nine money center banks, $623 billion; fifteen other large banks $287 billion; and all other reporting banks $619 billion.

AGRICULTURE: ITEM I(B)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR INSURED COMMERCIAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF INSURED COMMERCIAL AGRICULTURAL BANKS
ALABAMA	19	0.5%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	45	1.2
CALIFORNIA	1	0.0
COLORADO	69	1.8
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	6	0.2
GEORGIA	40	1.1
HAWAII	-	-
IDAHO	11	0.3
ILLINOIS	391	10.5
INDIANA	77	2.1
IOWA	505	13.5
KANSAS	403	10.8
KENTUCKY	75	2.0
LOUISIANA	24	0.6
MAINE	-	-
MARYLAND	3	0.1
MASSACHUSETTS	-	-
MICHIGAN	14	0.4
MINNESOTA	377	10.1
MISSISSIPPI	24	0.6
MISSOURI	260	7.0
MONTANA	78	2.1
NEBRASKA	378	10.1
NEVADA	1	0.0
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	6	0.2
NEW YORK	4	0.1
NORTH CAROLINA	2	0.1
NORTH DAKOTA	139	3.7
OHIO	48	1.3
OKLAHOMA	155	4.2
OREGON	5	0.1
PENNSYLVANIA	2	0.1
RHODE ISLAND	-	-
SOUTH CAROLINA	2	0.1
SOUTH DAKOTA	121	3.2
TENNESSEE	25	0.7
TEXAS	206	5.6
UTAH	2	0.1
VERMONT	-	-
VIRGINIA	2	0.1
WASHINGTON	16	0.4
WEST VIRGINIA	-	-
WISCONSIN	172	4.6
WYOMING	21	0.6
TOTAL	3,731	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(B)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR NATIONAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF NATIONAL AGRICULTURAL BANKS
ALABAMA	1	0.1%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	6	0.7
CALIFORNIA	-	-
COLORADO	36	4.4
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	0.1
GEORGIA	-	-
HAWAII	-	-
IDAHO	1	0.1
ILLINOIS	108	13.2
INDIANA	15	1.8
IOWA	71	8.6
KANSAS	90	11.0
KENTUCKY	12	1.5
LOUISIANA	2	0.2
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	2	0.2
MINNESOTA	67	8.2
MISSISSIPPI	1	0.1
MISSOURI	30	3.7
MONTANA	30	3.7
NEBRASKA	98	11.9
NEVADA	1	0.1
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	4	0.5
NEW YORK	2	0.2
NORTH CAROLINA	-	-
NORTH DAKOTA	24	2.9
OHIO	11	1.3
OKLAHOMA	59	7.2
OREGON	-	-
PENNSYLVANIA	2	0.2
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	17	2.1
TENNESSEE	1	0.1
TEXAS	97	11.8
UTAH	-	-
VERMONT	-	-
VIRGINIA	-	-
WASHINGTON	3	0.4
WEST VIRGINIA	-	-
WISCONSIN	20	2.4
WYOMING	9	1.1
TOTAL	821	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR STATE MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE MEMBER AGRICULTURAL BANKS
ALABAMA	-	-
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	-	-
CALIFORNIA	-	-
COLORADO	7	3.2
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	0.5
GEORGIA	-	-
HAWAII	-	-
IDAHO	3	1.4
ILLINOIS	24	11.0
INDIANA	14	6.4
IOWA	26	11.9
KANSAS	13	5.9
KENTUCKY	1	0.5
LOUISIANA	1	0.5
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	4	1.8
MINNESOTA	13	5.9
MISSISSIPPI	-	-
MISSOURI	11	5.0
MONTANA	23	10.5
NEBRASKA	6	2.7
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	-	-
NEW YORK	-	-
NORTH CAROLINA	-	-
NORTH DAKOTA	3	1.4
OHIO	14	6.4
OKLAHOMA	8	3.7
OREGON	2	0.9
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	20	9.1
TENNESSEE	-	-
TEXAS	12	5.5
UTAH	-	-
VERMONT	-	-
VIRGINIA	1	0.5
WASHINGTON	1	0.5
WEST VIRGINIA	-	-
WISCONSIN	5	2.3
WYOMING	6	2.7
TOTAL	219	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTUAL BANKS BY STATE

DATA FOR STATE NON-MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE NON-MEMBER AGRICULTURAL BANKS
ALABAMA	18	0.7%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	39	1.4
CALIFORNIA	1	0.0
COLORADO	26	1.0
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	4	0.1
GEORGIA	40	1.5
HAWAII	-	-
IDAHO	7	0.3
ILLINOIS	259	9.6
INDIANA	48	1.8
IOWA	408	15.2
KANSAS	300	11.1
KENTUCKY	62	2.3
LOUISIANA	21	0.8
MAINE	-	-
MARYLAND	3	0.1
MASSACHUSETTS	-	-
MICHIGAN	8	0.3
MINNESOTA	297	11.0
MISSISSIPPI	23	0.9
MISSOURI	219	8.1
MONTANA	25	0.9
NEBRASKA	274	10.2
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	2	0.1
NEW YORK	2	0.1
NORTH CAROLINA	2	0.1
NORTH DAKOTA	112	4.2
OHIO	23	0.9
OKLAHOMA	88	3.3
OREGON	3	0.1
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	2	0.1
SOUTH DAKOTA	84	3.1
TENNESSEE	24	0.9
TEXAS	99	3.7
UTAH	2	0.1
VERMONT	-	-
VIRGINIA	1	0.0
WASHINGTON	12	0.4
WEST VIRGINIA	-	-
WISCONSIN	147	5.5
WYOMING	6	0.2
TOTAL	2,691	100.0%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR INSURED COMMERICAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF INSURED COMMERICAL BANKS IN STATE
ALABAMA	19	7.9%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	45	17.4
CALIFORNIA	1	0.2
COLORADO	69	15.1
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	6	1.5
GEORGIA	40	10.8
HAWAII	-	-
IDAHO	11	42.3
ILLINOIS	391	31.7
INDIANA	77	20.8
IOWA	505	81.2
KANSAS	403	64.7
KENTUCKY	75	22.5
LOUISIANA	24	8.0
MAINE	-	-
MARYLAND	3	3.3
MASSACHUSETTS	-	-
MICHIGAN	14	3.9
MINNESOTA	377	51.4
MISSISSIPPI	24	16.4
MISSOURI	260	38.6
MONTANA	78	46.2
NEBRASKA	378	83.4
NEVADA	1	6.3
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	6	6.3
NEW YORK	4	2.1
NORTH CAROLINA	2	3.2
NORTH DAKOTA	139	78.5
OHIO	48	15.1
OKLAHOMA	155	29.1
OREGON	5	7.5
PENNSYLVANIA	2	0.6
RHODE ISLAND	-	-
SOUTH CAROLINA	2	2.7
SOUTH DAKOTA	121	88.3
TENNESSEE	25	8.7
TEXAS	208	10.7
UTAH	2	3.7
VERMONT	-	-
VIRGINIA	2	1.2
WASHINGTON	16	16.3
WEST VIRGINIA	-	-
WISCONSIN	172	30.0
WYOMING	21	18.4
TOTAL	3,731	26.1%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(C)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR NATIONAL BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF NATIONAL BANKS IN STATE
ALABAMA	1	1.9%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	6	7.3
CALIFORNIA	-	-
COLORADO	36	15.1
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	0.7
GEORGIA	-	-
HAWAII	-	-
IDAHO	1	14.3
ILLINOIS	108	27.1
INDIANA	15	13.6
IOWA	71	64.5
KANSAS	90	53.9
KENTUCKY	12	15.4
LOUISIANA	2	2.8
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	2	1.7
MINNESOTA	67	31.6
MISSISSIPPI	1	3.0
MISSOURI	30	23.8
MONTANA	30	54.5
NEBRASKA	98	81.7
NEVADA	1	16.7
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	4	8.9
NEW YORK	2	1.9
NORTH CAROLINA	-	-
NORTH DAKOTA	24	55.8
OHIO	11	7.6
OKLAHOMA	59	25.5
OREGON	-	-
PENNSYLVANIA	2	1.1
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	17	68.0
TENNESSEE	1	1.7
TEXAS	97	9.2
UTAH	-	-
VERMONT	-	-
VIRGINIA	-	-
WASHINGTON	3	12.5
WEST VIRGINIA	-	-
WISCONSIN	20	16.8
WYOMING	9	15.3
TOTAL	821	16.7%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM I(C)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR STATE MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE MEMBER BANKS IN STATE
ALABAMA	-	-
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	-	-
CALIFORNIA	-	-
COLORADO	7	10.3
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	1	1.8
GEORGIA	-	-
HAWAII	-	-
IDAHO	3	100.0
ILLINOIS	24	35.8
INDIANA	14	34.1
IOWA	26	70.3
KANSAS	13	65.0
KENTUCKY	1	14.3
LOUISIANA	1	16.7
MAINE	-	-
MARYLAND	-	-
MASSACHUSETTS	-	-
MICHIGAN	4	4.9
MINNESOTA	13	38.2
MISSISSIPPI	-	-
MISSOURI	11	29.7
MONTANA	23	56.1
NEBRASKA	6	66.7
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	-	-
NEW YORK	-	-
NORTH CAROLINA	-	-
NORTH DAKOTA	3	75.0
OHIO	14	20.3
OKLAHOMA	8	36.4
OREGON	2	15.4
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	-	-
SOUTH DAKOTA	20	80.0
TENNESSEE	-	-
TEXAS	12	17.1
UTAH	-	-
VERMONT	-	-
VIRGINIA	1	1.2
WASHINGTON	1	33.3
WEST VIRGINIA	-	-
WISCONSIN	5	22.7
WYOMING	6	24.0
TOTAL	219	20.5%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

CONCENTRATION OF AGRICULTURAL BANKS WITHIN EACH STATE

DATA FOR STATE NON-MEMBER BANKS

STATE	NUMBER OF AGRICULTURAL BANKS	PERCENT OF STATE NON-MEMBER BANKS IN STATE
ALABAMA	18	11.2%
ALASKA	-	-
ARIZONA	-	-
ARKANSAS	39	22.7
CALIFORNIA	1	0.4
COLORADO	26	17.4
CONNECTICUT	-	-
DELAWARE	-	-
D.C.	-	-
FLORIDA	4	2.2
GEORGIA	40	13.2
HAWAII	-	-
IDAHO	7	43.8
ILLINOIS	259	33.8
INDIANA	48	21.8
IOWA	408	85.9
KANSAS	300	68.8
KENTUCKY	62	25.0
LOUISIANA	21	9.4
MAINE	-	-
MARYLAND	3	5.0
MASSACHUSETTS	-	-
MICHIGAN	8	5.0
MINNESOTA	297	60.9
MISSISSIPPI	23	20.9
MISSOURI	219	42.9
MONTANA	25	34.2
NEBRASKA	274	84.6
NEVADA	-	-
NEW HAMPSHIRE	-	-
NEW JERSEY	-	-
NEW MEXICO	2	4.4
NEW YORK	2	3.9
NORTH CAROLINA	2	4.3
NORTH DAKOTA	112	86.2
OHIO	23	21.9
OKLAHOMA	88	31.4
OREGON	3	6.5
PENNSYLVANIA	-	-
RHODE ISLAND	-	-
SOUTH CAROLINA	2	4.1
SOUTH DAKOTA	84	96.6
TENNESSEE	24	10.9
TEXAS	99	12.3
UTAH	2	6.1
VERMONT	-	-
VIRGINIA	1	2.4
WASHINGTON	12	16.9
WEST VIRGINIA	-	-
WISCONSIN	147	33.9
WYOMING	6	20.0
TOTAL	2,691	32.4%

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS
AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR INSURED COMMERCIAL BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	4.9%	2.7%
1985 Q3	4.9	3.0
1985 Q2	4.7	3.0
1985 Q1	4.8	3.1
1984 Q4	3.8	3.0
1984 Q3	3.6	3.1
1984 Q2	3.5	3.2
1984 Q1	3.6	3.3
1983 Q4	3.0	3.3
1983 Q3	3.0	3.8
1983 Q2	2.9	3.8
1983 Q1	2.9	3.7
1982 Q4	2.4	3.4

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM II(A)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR NATIONAL BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	5.2%	2.9%
1985 Q3	5.4	3.2
1985 Q2	5.0	3.2
1985 Q1	5.0	3.2
1984 Q4	4.0	3.2
1984 Q3	3.8	3.3
1984 Q2	3.8	3.5
1984 Q1	3.7	3.6
1983 Q4	3.1	3.6
1983 Q3	3.0	4.1
1983 Q2	2.9	4.1
1983 Q1	2.9	4.0
1982 Q4	2.4	3.6

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM II(A)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR STATE MEMBER BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	4.5%	2.6%
1985 Q3	4.6	3.1
1985 Q2	4.5	3.1
1985 Q1	4.3	3.1
1984 Q4	3.4	3.0
1984 Q3	3.3	3.1
1984 Q2	3.2	3.1
1984 Q1	3.4	2.8
1983 Q4	3.1	2.9
1983 Q3	3.1	3.3
1983 Q2	2.9	3.3
1983 Q1	2.9	3.2
1982 Q4	2.7	2.9

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE: ITEM II(A)

NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS AT AGRICULUTRAL AND NON-AGRICULTURAL BANKS

DATA FOR STATE NON-MEMBER BANKS

	AGRICULTURAL BANKS	NON-AGRICULTURAL BANKS
1985 Q4	4.8%	2.4%
1985 Q3	4.7	2.5
1985 Q2	4.5	2.4
1985 Q1	4.7	2.5
1984 Q4	3.7	2.4
1984 Q3	3.5	2.5
1984 Q2	3.4	2.5
1984 Q1	3.5	2.7
1983 Q4	2.9	2.7
1983 Q3	3.0	3.1
1983 Q2	2.8	3.1
1983 Q1	3.0	3.2
1982 Q4	2.5	3.0

Definitions: Aggregate nonperforming loans (loans 90 days or more past due and nonaccruing loans and renegotiated loans) divided by aggregate gross loans and leases.

Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: Call Reports

OCC (4/86)

AGRICULTURE - ITEM III-A

FAILURES BY TYPE OF BANK

	1982	1983	1984	1985	1986*
Agriculture Banks	7	7	25	62	12
Other Commercial Banks	27	38	53	56	12
Savings Banks	8	3	1	2	0
Total	42	48	79	120	24

AGRICULTURAL BANK FAILURES BY CHARTER CLASS

	1982	1983	1984	1985	1986*
National Banks	2	2	5	10	5
State Member Banks	0	0	1	4	1
State Non-member Banks	5	5	19	48	6
Total	7	7	25	62	12

* Failures through March 27, 1986.

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Source: FDIC.

AGRICULTURE: ITEM II(C)

PROBLEM COMMERCIAL BANKS BY TYPE OF BANK

	Ag Banks	Other Commercial Banks	Total
Dec. 1982	*	*	*
June 1983	106 (22.0)	375 (78.0)	481
Dec. 1983	146 (24.2)	457 (75.8)	603
June 1984	231 (34.3)	440 (65.6)	671
Dec. 1984	288 (36.1)	512 (63.9)	800
June 1985	334 (35.5)	606 (64.5)	940
Dec. 1985	437 (39.8)	661 (60.2)	1,098
Feb. 1986	468 (40.5)	668 (59.5)	1,156

Definition: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

Problem banks are defined as those rated composite 4 and 5 on the CAMEL rating system.

*Agricultural banks not segregated prior to June 1983.

Numbers in parentheses indicate percent of total problem commercial banks.

Source: FDIC.

AGRICULTURE: ITEM II(D)

PROJECTED FARM-BANK FAILURES AND ASSETS OF FAILED BANKS
UNDER HIGH, MEDIUM, AND LOW LOSS SCENARIOS

	1986		1987		1988	
	Number of Banks	Assets (millions of dollars)	Number of Banks	Assets (millions of dollars)	Number of Banks	Assets (millions of dollars)
High	116	2,975	133	3,119	82	[illegible]
Medium	72	1,662	73	2,006	35	[illegible]
Low	38	813	49	1,423	5	[illegible]

Note: The medium loss scenario assumes that farm-loan losses would be equal to about 3 percent of farm-loans annually in 1986-1987, and then drop slightly to 2.5 percent in 1988. The 3 percent loss rate would be roughly equal to that experienced at commercial banks in 1985. The high loss scenario assumes loss rates of 4.5 percent in 1986-87 and 3.5 percent in 1988, while loss rates under the low loss scenario are equal to 2 percent in 1986-87, and 1 percent in 1988.

Source: FDIC.

AGRICULTURE: ITEMS III(A), AND III(C)

PROBLEM AGRICULTURAL BANKS THAT ARE IN ONE-BANK COMMUNITIES

	April 1, 1986
Number of agricultural banks in one-bank communities	2,7[illegible]
Number of problem banks by charter class:	
National Banks	51
State Member Banks	11
State Non-member Banks	203
Total problem banks	265

Definitions: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

One-bank communities are located outside of Standard Metropolitan Statistical Areas and are determined from Call Report files to have only one bank.

Source: FDIC.

AGRICULTURAL BANK FAILURES IN ONE-BANK COMMUNITIES

	1982	1983	1984	1985	1986*
National Banks	1	1	3	5	1
State Member Banks	0	0	0	2	1
State Nonmember Banks	4	2	15	36	5
Total	5	3	18	43	7

AGRICULTURAL BANK FAILURES IN ONE-BANK TOWNS THAT WERE PAYOFFS

	1982	1983	1984	1985	1986
National Banks	1	1	0	2	0
State Member Banks	0	0	0	0	0
State Nonmember Banks	2	1	0	9	1
Total	3	2	0 1/	11	1

Definitions: Agricultural banks have ratios of agricultural loans (production loans and real estate loans secured by farmland) to total loans net of unearned income of twenty-five percent or more.

One-bank communities are located outside of Standard Metropolitan Statistical Areas and are determined from Call Report files to have only one bank.

1/ No deposit payoffs but there were 3 deposit transfers.

*Failures through March 27, 1986.

Source: FDIC.

ENERGY: ITEM [illegible]

SNC ENERGY LOANS AND COMMITMENTS [1]
(Dollars in Millions)

	Total $ Energy Loans and Commitments Outstanding	$ Classifications				Capital (Equity + Loss Res.)	Total Class. % of Cap.	Weighted [2] Total Class. % of Cap.
		S/S	D	Loss	Total			
1977	6,837	280	50	0	330	33,770	1.0	.24
1978	8,705	357	76	48	480	37,264	1.3	.42
1979	10,076	397	47	0	444	40,504	1.1	.25
1980	15,939	243	0	0	243	44,264	0.5	.11
1981	20,515	90	283	0	373	50,289	0.7	.32
1982	38,146	965	195	25	1,185	59,718	2.0	.53
1983	46,293	5,405	423	390	6,218	66,798	9.3	2.52
1984	56,908	4,531	884	741	6,155	72,532	8.5	2.88
1985	48,981	6,962	1,066	410	8,438	86,194	9.8	2.71

[1] This information is derived from the annual interagency program for review and classification of Shared National Credits (SNC). A SNC is defined as any loan or group of loans to a borrower aggregating $20 million or more, either outstanding or committed under a formal lending agreement and (a) shared at its inception by two or more banks; or (b) a portion of which is sold to one or more banks with the purchasing bank assuming its pro-rata share of the credit risk. Therefore, the above data are not meant to represent the full extent of classified energy credits. Energy credits are those with SIC codes 1311, 1321, 1381, 1382, 1389, 2911 or 3533.

[2] The ratios represent classified loans in the Shared National Credit Program weighted on the basis of 20 percent of substandard loans plus 50 percent of doubtful loans plus 100 percent of loss loans to equity capital plus loan loss reserves as reflected in the June 30 Call Reports for 1977 through 1985. All figures are weighted averages.

Source: Federal Reserve Board

SNC ENERGY LOANS AND COMMITMENTS
25 INSTITUTIONS WITH LARGEST SNC ENERGY EXPOSURE
(Dollars in Millions)

	Total Energy Credits	Total Assets	Classified Energy Credits	Energy Credits/ Total Assets (%)	Class. Credits/ Total Energy Credits (%)	Number of Lenders by Asset Size		
						<300	300-1,000	>1,000
1982	$20,442	$280,682	$ 617	7.3	3.0	7	6	12
1983	19,355	193,607	3,476	10.0	18.0	9	3	13
1984	26,757	280,844	3,279	9.5	12.3	7	2	16
1985	14,667	155,523	3,091	9.4	21.1	9	6	10

Note: The above information is derived from the annual interagency program for review and classification of Shared National Credits (SNC). A SNC is defined as any loan or group of loans to a borrower aggregating $20 million or more, either outstanding or committed under a formal lending agreement and (a) shared at its inception by two or more banks; or (b) a portion of which is sold to one or more banks with the purchasing bank assuming its pro-rata share of the credit risk. Therefore, the above data are not meant to represent the full extent of classified energy credits. Energy credits are those with SIC codes of 1311, 1321, 1381, 1382, 1389, 2911 or 3533.

To determine the 25 largest exposures, first, energy credits were divided by total assets for each institution to determine its relative exposure. The resulting ratio was used to rank institutions in order from most exposed to least exposed, and then the institutions with the largest ratios were selected. Only institutions with a ratio of greater than five percent were included. Prior to 1982, fewer than 25 institutions had energy credits greater or equal to five percent of assets.

It was not possible to select a matched sample of 25 institutions for all time periods, so the 25 largest ratios were chosen for each year according to the procedure above. The number of lenders by asset size is shown to indicate the variation in the sample.

Source: Federal Reserve Board.

COUNTRY EXPOSURE LENDING SURVEY

SEPTEMBER 1985

E.16(126)

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985 1/
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS 2/3/
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL 4/ THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS 5/ BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED 6/ BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	8196.0	2537.5	144.7	5513.8	973.1	1202.6	7689.6
CANADA	11144.2	443.2	604.8	10096.1	4890.4	588.9	15575.5
FRANCE	11378.6	1282.6	102.5	9993.4	5610.5	881.0	16485.0
GERMANY, FEDERAL REPUBLIC OF	4747.1	278.3	296.7	4172.0	3209.2	800.3	8181.6
ITALY	7100.2	247.8	97.1	6755.2	4006.2	486.0	11247.5
JAPAN	15509.6	225.7	158.9	15125.0	32523.1	1611.3	49259.4
NETHERLANDS	2569.9	261.7	360.7	1947.5	1527.2	461.1	3935.9
SWEDEN	3348.9	172.3	20.7	3155.9	214.5	203.4	3573.9
SWITZERLAND	3183.3	85.4	316.7	2781.1	1114.0	675.5	4570.7
UNITED KINGDOM	42250.1	21120.0	2299.6	18830.5	3561.2	3815.2	26207.0
TOTALS	109428.4	26654.7	4402.7	78370.9	57629.6	10725.9	146726.4
IN G-10 DEVELOPED COUNTRIES							
AUSTRALIA	5784.1	45.8	399.3	5339.0	1744.6	486.8	7570.6
AUSTRIA	1598.4	20.3	23.0	1555.1	358.3	125.0	2038.4
DENMARK	2457.1	15.0	89.4	2352.7	522.3	262.4	3137.4
FINLAND	2038.6	70.8	113.4	1854.4	164.4	61.6	2080.5
GREECE	2772.8	41.2	172.0	2559.6	27.4	232.1	2819.1
ICELAND	255.8	1.0	21.1	233.7	7.0	.0	240.8
IRELAND, REPUBLIC OF	1201.2	93.3	37.0	1070.8	392.0	75.4	1538.2
NEW ZEALAND	1036.5	6.5	61.4	968.5	189.1	35.3	1193.0
NORWAY	3523.4	12.0	320.6	3190.8	72.5	437.6	3701.0
PORTUGAL	1432.5	128.7	73.5	1230.3	455.1	21.0	1706.4
SOUTH AFRICA	3441.1	197.6	179.6	3063.9	135.0	116.8	3315.8
SPAIN	4289.9	186.9	364.8	3738.1	698.7	51.5	4488.3
TURKEY	2244.3	8.0	225.9	2010.4	6.5	9.0	2025.9
OTHER	251.6	27.0	84.5	140.1	1.0	14.3	155.4
TOTALS	32327.9	854.3	2165.7	29307.8	4774.4	1929.1	36011.3
STERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	108.5	.0	.0	108.5	.0	.0	108.5
CZECHOSLOVAKIA	114.5	3.7	3.0	107.8	.0	3.0	110.8
GERMAN DEMOCRATIC REPUBLIC	384.9	.0	2.0	382.9	121.5	10.4	514.8
HUNGARY	720.9	7.4	30.3	683.2	.0	1.0	684.2
POLAND	627.5	11.8	18.1	597.6	8.9	.0	606.6
ROMANIA	206.5	.0	1.0	205.5	.0	2.9	208.4
U.S.S.R.	156.6	4.8	25.2	126.6	15.0	.0	141.6
YUGOSLAVIA	2388.3	102.9	140.0	2145.4	5.0	57.8	2208.2
TOTALS	4708.1	130.6	219.6	4357.8	150.5	75.1	4583.5
EC MEMBERS							
ALGERIA	967.4	2.0	48.2	917.2	3.6	40.0	960.8
ECUADOR	2184.8	5.5	221.4	1957.8	.0	5.1	1962.9
GABON	65.7	1.0	14.8	49.9	.0	15.5	65.4

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
INDONESIA	2957.6	8.7	511.6	2437.3	100.7	139.5	2685.5
IRAN	2.1	.0	2.0	.1	.0	.0	.1
IRAQ	663.5	408.1	81.7	173.7	.2	.0	173.9
KUWAIT	846.2	11.4	35.8	799.0	243.2	22.0	1065.0
LIBYA	36.0	.0	11.0	25.0	.0	.0	25.0
NIGERIA	1431.4	91.8	313.5	1026.0	.0	30.0	1056.0
QATAR	13.8	.0	10.2	3.6	19.0	.0	22.6
SAUDI ARABIA	1742.1	28.0	215.0	1499.0	168.5	208.4	1876.0
UNITED ARAB EMIRATES	615.9	81.1	60.8	474.0	100.3	8.7	583.1
VENEZUELA	10221.8	22.1	430.2	9768.6	138.0	35.4	9942.0
TOTALS	21748.0	658.9	1955.6	19133.4	782.4	504.6	20420.5
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	8193.9	8.2	583.5	7602.1	856.7	36.8	8495.7
BOLIVIA	144.9	4.2	7.0	133.7	2.0	.0	135.7
BRAZIL	22903.6	469.8	945.2	21488.5	2220.4	214.9	23931.9
CHILE	6196.8	223.6	189.7	5783.3	15.1	68.4	5866.9
COLOMBIA	2615.4	115.7	55.5	2444.1	107.1	5.4	2558.7
COSTA RICA	446.7	2.6	26.5	417.5	.0	4.0	421.5
DOMINICAN REPUBLIC	484.0	20.2	42.3	421.4	.0	.0	421.4
EL SALVADOR	110.0	37.3	15.5	57.2	.0	.5	57.7
GUATEMALA	134.1	23.3	32.6	78.1	.0	.1	78.2
HONDURAS	136.7	9.1	27.1	100.4	.0	.0	100.4
JAMAICA	262.7	.4	102.2	160.1	.0	.0	160.1
MEXICO	25106.7	306.6	1417.1	23382.9	1207.4	193.1	24783.5
NICARAGUA	134.6	.0	1.0	133.5	.0	.0	133.5
PARAGUAY	190.4	.0	4.8	185.6	.0	2.0	187.6
PERU	1862.0	35.4	177.3	1649.1	1.3	4.2	1654.7
TRINIDAD AND TOBAGO	148.6	.0	22.6	126.0	.0	2.2	128.2
URUGUAY	923.4	2.4	30.7	890.3	.0	2.6	892.9
OTHER	119.5	51.4	18.3	49.8	3.0	.3	53.1
TOTALS	70194.7	1390.4	3697.6	65106.6	4419.1	534.8	70060.6
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	491.4	.0	.0	491.4	551.6	73.7	1116.8
CHINA,TAIWAN	2119.2	120.0	69.3	1929.9	183.6	170.0	2283.5
INDIA	883.2	11.0	16.7	855.5	368.1	86.7	1310.4
ISRAEL	1674.1	124.0	73.2	1476.9	86.9	335.0	1898.8
JORDAN	227.2	8.1	13.7	205.4	122.3	2.0	329.8
KOREA, SOUTH	9893.4	844.7	211.0	8837.6	838.9	753.8	10430.5
MALAYSIA	1477.0	4.5	60.0	1412.5	171.3	68.4	1652.2
PAKISTAN	176.7	1.1	1.1	174.4	19.0	21.8	215.2
PHILIPPINES	5475.3	156.5	268.2	5050.5	127.6	47.3	5225.4
SYRIA	28.2	.0	2.0	26.2	.0	1.0	27.2
THAILAND	1892.3	49.7	64.6	1778.0	311.7	10.3	2100.1

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	929.1	72.7	185.2	671.1	36.9	4.3	712.4
TOTALS	25267.7	1392.4	965.2	22910.0	2818.2	1574.5	27302.8
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	225.3	.0	91.3	134.0	.0	5.0	139.0
EGYPT	1025.8	216.1	135.6	674.1	44.6	4.6	723.1
GHANA	11.1	.0	9.1	2.0	.0	1.0	3.0
IVORY COAST	422.8	1.0	9.6	412.2	.0	.0	412.2
KENYA	82.4	.0	6.4	76.0	.0	.0	76.0
MALAWI	45.6	.0	1.0	44.6	3.0	.0	47.6
MOROCCO	945.3	119.5	3.2	822.6	10.0	9.0	841.6
SENEGAL	63.4	.0	.0	63.4	.0	.2	63.6
SUDAN	71.6	.4	4.4	66.8	1.0	.0	67.8
TUNISIA	228.5	3.5	63.0	162.0	.0	.0	162.0
ZAIRE	25.3	.0	15.0	10.3	.0	.0	10.3
ZAMBIA	89.0	.0	28.2	60.8	.0	.0	60.8
OTHER	684.7	13.9	245.0	425.8	2.0	5.7	433.6
TOTALS	3921.3	354.4	611.8	2955.0	60.4	25.6	3041.1
OFFSHORE BANKING CENTERS							
BAHAMAS	6258.3	5375.5	319.2	563.5	28.0	49.4	641.0
BAHRAIN	1501.6	789.4	79.6	632.5	212.9	16.9	862.4
BERMUDA	592.6	3.8	297.2	291.6	1.0	54.9	347.5
BRITISH WEST INDIES	8588.1	8174.6	138.7	274.7	34.8	13.0	322.5
HONG KONG	6716.5	3207.4	987.7	2521.1	196.7	530.5	3248.4
LEBANON	88.0	.8	24.4	62.8	24.4	5.3	92.5
LIBERIA	1574.9	1.0	1447.5	126.4	.0	4.9	131.3
MACAO	239.8	152.2	1.5	86.1	.0	5.8	91.9
NETHERLANDS ANTILLES	1039.7	192.7	589.4	257.5	5.0	47.5	310.0
PANAMA	3076.8	959.3	1138.9	978.5	29.0	57.6	1065.1
SINGAPORE	6127.7	4537.4	349.2	1241.0	169.1	216.0	1626.2
TOTALS	35804.4	23394.5	5373.6	7036.2	701.0	1002.0	8739.3
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.7	.0	.0	.7	.0	.0	.7
ASIAN REGIONAL	2.0	.0	.0	2.0	.0	1.0	3.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	489.7	2.0	13.0	474.7	4.0	15.0	493.7
LATIN AMERICAN REGIONAL	17.1	.0	1.0	16.1	10.0	11.0	37.1
MIDDLE EASTERN REGIONAL	99.0	.0	.0	99.0	.0	.0	99.0
W. EUROPEAN REGIONAL	368.8	.0	.0	368.8	5.6	40.0	414.4
TOTALS	977.3	2.0	14.0	961.3	19.6	67.0	1047.9
Grand Totals	304378.0	54832.4	19406.1	230139.4	71355.4	16438.8	317933.7

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

OUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	8196.0	6792.9	581.8	821.2	7442.9	437.3	315.7
CANADA	11144.2	5548.0	426.2	5169.8	7319.0	1527.5	2297.7
FRANCE	11378.6	8482.1	1619.6	1276.8	9090.9	1301.8	985.8
GERMANY, FEDERAL REPUBLIC OF	4747.1	1650.9	787.3	2308.8	3046.8	1319.5	380.7
ITALY	7100.2	3986.7	2055.7	1057.7	4401.7	1746.3	952.2
JAPAN	15509.6	9132.5	182.6	6194.4	12481.6	2477.5	550.4
NETHERLANDS	2569.9	1010.5	215.7	1343.7	1871.9	287.9	410.0
SWEDEN	3348.9	2143.7	467.4	737.7	2612.3	383.9	352.7
SWITZERLAND	3183.3	1481.8	155.9	1545.5	2568.8	262.2	352.3
UNITED KINGDOM	42250.1	30817.2	1269.7	10163.1	36438.7	3702.1	2109.2
TOTALS	109428.4	71046.7	7762.3	30619.2	87275.0	13446.3	8707.0
N G-10 DEVELOPED COUNTRIES							
AUSTRALIA	5784.1	691.0	480.0	4613.0	2619.5	1581.7	1582.9
AUSTRIA	1598.4	1128.1	362.5	107.7	1280.5	201.4	116.5
DENMARK	2457.1	759.0	232.8	1465.2	1553.2	620.2	283.5
FINLAND	2038.6	1045.8	381.2	611.5	1417.6	470.4	150.6
GREECE	2772.8	161.7	864.7	1746.4	961.2	1203.5	608.0
ICELAND	255.8	77.0	98.2	80.6	120.8	81.0	54.0
IRELAND, REPUBLIC OF	1201.2	291.0	664.3	245.8	542.0	319.3	339.7
NEW ZEALAND	1036.5	70.2	186.1	780.0	405.6	280.0	350.8
NORWAY	3523.4	1005.1	148.0	2370.2	1719.4	991.8	812.1
PORTUGAL	1432.5	557.9	778.6	95.9	745.7	559.1	127.6
SOUTH AFRICA	3441.1	2231.3	180.3	1029.4	2810.2	574.5	56.4
SPAIN	4289.9	1762.3	1035.7	1491.8	2191.5	1411.5	686.8
TURKEY	2244.3	551.5	1473.8	218.8	1188.8	918.5	137.0
OTHER	251.6	44.8	32.1	174.7	131.3	99.5	20.8
TOTALS	32327.9	10377.3	6918.8	15031.7	17687.8	9312.9	5327.1
STERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	108.5	14.1	90.0	4.4	88.5	20.0	.0
ZECHOSLOVAKIA	114.5	71.4	39.1	4.0	73.9	40.5	.0
GERMAN DEMOCRATIC REPUBLIC	384.9	293.7	72.2	18.9	314.5	69.0	1.3
HUNGARY	720.9	119.7	598.7	2.4	363.6	262.7	94.6
OLAND	627.5	164.1	453.4	10.0	180.3	319.2	127.9
OMANIA	206.5	10.1	196.4	.0	99.0	102.0	5.5
U S S R	156.6	20.4	128.0	8.2	63.3	79.9	13.4
UGOSLAVIA	2388.3	1253.9	910.6	223.7	978.8	1123.0	286.4
TOTALS	4708.1	1947.6	2488.7	271.7	2162.3	2016.5	529.2
C MEMBERS							
LGERIA	967.4	420.9	421.9	124.5	304.5	325.2	337.7
CUADOR	2184.8	185.2	1817.7	181.7	1060.4	766.9	357.3
ABON	65.7	.0	53.2	12.5	35.9	22.7	7.0
NDONESIA	2957.6	257.6	828.1	1871.9	1673.7	811.7	472.1

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
IRAN	2.1	.0	.0	2.1	2.1	.0	.0
IRAQ	663.5	511.6	150.9	1.0	383.1	279.3	1.1
KUWAIT	846.2	589.1	29.0	228.0	783.3	62.9	.0
LIBYA	36.0	10.0	15.0	11.0	36.0	.0	.0
NIGERIA	1431.4	331.0	971.6	128.8	946.5	404.8	80.1
QATAR	13.8	.0	.0	13.7	9.8	3.0	1.0
SAUDI ARABIA	1742.1	374.3	29.0	1338.7	1259.4	282.1	200.6
UNITED ARAB EMIRATES	615.9	325.7	162.2	127.9	499.5	94.0	22.4
VENEZUELA	10221.0	2250.1	5053.3	2917.5	8527.1	1347.6	346.1
TOTALS	21748.0	5256.0	9532.2	6959.7	15521.7	4400.6	1825.6
ION-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	8193.9	1562.0	4496.0	2135.7	5212.1	2365.0	616.6
BOLIVIA	144.9	17.7	104.2	22.9	131.9	10.0	3.0
BRAZIL	22903.6	7193.4	11933.8	3776.3	8675.5	8691.3	5536.8
CHILE	6196.8	2657.4	2624.3	915.0	2277.5	2921.2	998.0
COLOMBIA	2615.4	979.7	1017.1	618.5	1487.3	713.1	414.9
COSTA RICA	446.7	21.8	384.0	40.8	149.7	236.5	60.5
DOMINICAN REPUBLIC	484.0	37.2	381.4	65.3	290.3	178.9	14.7
EL SALVADOR	110.0	64.4	34.6	10.8	63.5	45.4	1.0
GUATEMALA	134.1	32.3	58.1	43.7	75.4	54.7	4.0
HONDURAS	136.7	20.6	69.9	46.1	97.0	37.4	2.2
JAMAICA	262.7	.9	257.3	4.5	101.9	123.6	37.2
MEXICO	25186.7	4170.2	13346.2	7670.2	8177.5	10135.4	6873.7
NICARAGUA	134.6	11.4	718.1	5.0	98.6	12.9	23.1
PARAGUAY	190.4	7.3	126.4	56.6	91.2	89.2	10.0
PERU	1862.0	316.0	1280.7	265.1	1226.1	496.8	139.0
TRINIDAD AND TOBAGO	148.6	.5	141.1	7.0	67.5	44.2	36.8
URUGUAY	923.4	36.8	786.9	99.7	343.7	553.4	26.2
OTHER	119.5	62.8	48.5	8.2	96.7	14.8	8.0
TOTALS	70194.7	17193.0	37209.3	15792.2	28664.2	26724.3	14806.0
ON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	491.4	280.0	128.0	83.2	418.2	38.6	34.4
CHINA,TAIWAN	2119.2	828.3	625.0	665.7	1323.4	562.8	232.8
INDIA	883.2	202.8	302.4	378.0	421.6	263.6	197.9
ISRAEL	1674.1	1162.0	320.3	191.7	1187.2	416.3	70.4
JORDAN	227.2	95.8	102.3	29.1	156.8	51.8	18.6
KOREA, SOUTH	9893.4	4895.0	2044.2	2954.2	6566.7	2216.9	1109.8
MALAYSIA	1477.0	193.5	720.2	563.2	371.2	714.2	391.5
PAKISTAN	176.7	16.8	101.7	58.1	98.1	78.6	.0
PHILIPPINES	5475.3	870.1	3335.9	1269.2	2804.4	2045.6	625.2
SYRIA	28.2	20.5	3.7	4.0	28.2	0	0
THAILAND	1892.3	999.5	170.6	722.0	1497.8	313.8	80.5
OTHER	929.1	238.7	318.2	372.1	335.8	463.1	130.1
TOTALS	25267.7	9803.6	8173.1	7290.9	15210.1	7165.9	2891.6

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985

(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	225.3	16.8	76.0	132.5	59.7	153.6	12.0
EGYPT	1025.8	675.6	113.0	237.2	758.4	211.8	55.5
GHANA	11.1	1.0	8.1	2.0	6.4	4.7	.0
IVORY COAST	422.8	15.8	348.2	58.8	147.9	177.0	97.9
KENYA	82.4	2.4	23.3	56.7	62.7	18.7	1.0
MALAWI	45.6	17.6	24.0	4.0	34.8	10.7	.0
MOROCO	945.3	506.5	395.7	43.1	711.9	222.0	11.4
SENEGAL	63.4	2.0	34.2	27.2	38.0	22.6	2.7
SUDAN	71.6	15.4	52.9	3.3	55.2	4.3	12.1
TUNISIA	228.5	74.7	141.8	12.0	140.5	64.8	23.2
ZAIRE	25.3	.0	25.3	.0	17.8	7.5	.0
ZAMBIA	89.0	3.1	77.1	8.8	45.1	19.8	24.0
OTHER	684.7	141.1	372.2	171.4	429.4	188.3	66.9
TOTALS	3921.3	1472.0	1692.2	757.0	2508.4	1106.2	306.7
OFFSHORE BANKING CENTERS							
BAHAMAS	6258.3	5786.8	33.0	438.3	5946.9	234.6	76.7
BAHRAIN	1501.6	1406.5	43.0	52.1	1456.2	38.4	7.0
BERMUDA	592.6	55.5	59.0	478.0	445.4	65.1	82.0
BRITISH WEST INDIES	8588.1	8383.4	67.7	137.0	8416.5	118.6	53.0
HONG KONG	6716.3	4286.4	82.7	2347.2	5694.2	638.0	384.1
LEBANON	88.0	41.6	1.3	45.1	80.6	5.4	2.0
LIBERIA	1574.9	11.4	50.9	1512.6	527.6	704.9	342.4
MACAO	239.8	214.7	7.0	18.1	225.6	7.9	6.3
NETHERLANDS ANTILLES	1039.7	248.4	22.9	768.3	538.3	333.2	168.1
PANAMA	3076.8	1162.4	381.0	1533.3	1962.5	748.2	366.0
SINGAPORE	6127.7	5130.3	113.8	883.5	5683.9	271.7	172.1
TOTALS	35804.4	26727.8	862.5	8213.9	30978.2	3166.3	1659.8
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.7	.0	.7	.0	.7	.0	.0
ASIAN REGIONAL	2.0	.0	2.0	.0	1.0	.0	1.0
E. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
INTERNATIONAL	489.7	.0	489.7	.0	147.0	128.5	214.2
LATIN AMERICAN REGIONAL	17.1	.0	17.1	.0	1.0	2.0	14.1
MIDDLE EASTERN REGIONAL	99.0	.0	99.0	.0	97.0	.0	2.0
W. EUROPEAN REGIONAL	368.8	.0	368.8	.0	119.4	104.4	145.0
TOTALS	977.3	.0	977.3	.0	366.1	234.9	376.3
*** GRAND **** ** TOTALS **	304378.0	143824.4	75616.8	84936.7	200374.0	67574.2	36429.7

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS

(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1544.9	626.8	8.0	910.0	328.6	33.9	1272.6
CANADA	2353.4	174.7	162.3	2016.4	1169.0	114.8	3300.4
FRANCE	2184.3	456.4	11.3	1716.6	1996.8	56.6	3770.0
GERMANY, FEDERAL REPUBLIC OF	358.2	38.1	34.9	285.1	853.2	117.7	1256.1
ITALY	1401.1	38.5	.1	1362.5	1246.3	58.9	2667.7
JAPAN	2817.1	53.3	68.9	2694.9	9197.2	169.9	12062.0
NETHERLANDS	427.5	28.8	103.9	294.7	376.5	34.7	706.0
SWEDEN	608.4	.0	9.7	598.7	34.0	24.2	657.0
SWITZERLAND	541.6	12.8	1.4	527.4	310.0	117.2	954.7
UNITED KINGDOM	8385.9	5031.7	285.4	3068.6	901.1	271.1	4240.9
TOTALS	20622.8	6461.2	686.1	13475.4	16413.0	999.3	30887.8
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	1289.0	23.5	30.8	1234.7	467.9	208.0	1910.7
AUSTRIA	307.8	5.0	.0	302.8	95.4	34.6	432.8
DENMARK	304.5	.0	.0	304.5	160.4	4.5	469.5
FINLAND	280.9	2.0	.0	278.9	41.2	.0	320.2
GREECE	261.4	6.2	.3	254.9	8.4	41.1	304.4
ICELAND	24.8	1.0	.0	23.8	2.0	.0	25.8
IRELAND, REPUBLIC OF	214.4	18.1	.0	196.2	182.6	.0	378.9
NEW ZEALAND	251.9	2.3	7.2	242.3	49.7	14.2	306.2
NORWAY	371.3	.0	2.0	369.3	41.0	9.9	420.3
PORTUGAL	241.9	22.2	.0	219.7	92.6	13.0	325.3
SOUTH AFRICA	738.8	111.6	12.4	614.8	43.0	25.4	683.1
SPAIN	706.8	40.0	3.0	663.8	169.5	.0	833.3
TURKEY	448.9	2.0	66.2	380.7	1.5	.0	382.2
OTHER	12.5	.0	.1	12.4	.0	.0	12.4
TOTALS	5455.6	234.0	122.0	5099.5	1355.4	350.9	6805.9
EASTERN EUROPE							
BULGARIA	9.5	.0	.0	9.5	.0	.0	9.5
CZECHOSLOVAKIA	10.0	.0	.0	10.0	.0	.0	10.0
GERMAN DEMOCRATIC REPUBLIC	41.2	.0	.0	41.2	10.0	10.0	61.2
HUNGARY	146.4	2.0	3.0	141.4	.0	.0	141.4
POLAND	87.1	.0	5.0	82.1	.0	.0	82.1
ROMANIA	13.9	.0	.0	13.9	.0	2.9	16.8
U.S.S.R.	11.2	.0	8.2	3.0	9.0	.0	12.0
YUGOSLAVIA	426.4	13.0	5.9	407.4	.0	12.0	419.4
TOTALS	745.9	15.0	22.1	708.7	19.0	24.9	752.6
OPEC MEMBERS							
ALGERIA	238.4	.0	.2	238.2	3.6	.0	241.8
ECUADOR	297.3	3.7	.2	293.4	.0	.0	293.4
GABON	5.6	.0	.3	5.3	.0	.0	5.3

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES BORROWINGS OF BANKS	BORROWINGS OF NONBANKS	TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
OPEC MEMBERS							
INDONESIA	377.2	5.2	77.5	294.4	36.8	38.5	369.7
IRAN	2.0	.0	2.0	.0	.0	.0	.0
IRAQ	78.3	3.1	1.5	73.7	.2	.0	73.9
KUWAIT	97.7	.0	2.0	95.7	100.0	.0	195.7
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	187.8	4.9	35.0	147.9	.0	.0	147.9
QATAR	.0	.0	.0	.0	5.0	.0	5.0
SAUDI ARABIA	94.6	.0	11.1	83.5	35.8	1.0	120.3
UNITED ARAB EMIRATES	82.2	15.8	7.4	59.0	43.3	.0	102.3
VENEZUELA	1722.6	2.0	98.1	1622.4	44.0	.0	1666.4
TOTALS	3184.3	34.7	235.4	2914.1	268.7	39.5	3222.3
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	1592.0	1.0	82.6	1508.4	99.5	17.0	1624.9
BOLIVIA	37.0	1.9	.5	34.6	.0	.0	34.6
BRAZIL	4108.9	79.7	168.4	3860.7	529.9	127.3	4518.0
CHILE	1091.4	35.4	56.7	999.3	1.0	6.0	1006.3
COLOMBIA	364.2	3.0	22.5	338.7	34.1	2.0	374.8
COSTA RICA	124.4	1.0	8.4	115.0	.0	2.0	117.0
DOMINICAN REPUBLIC	64.0	12.2	.3	51.5	.0	.0	51.5
EL SALVADOR	6.8	1.6	4.0	1.2	.0	.0	1.2
GUATEMALA	13.8	.0	5.5	8.3	.0	.0	8.3
HONDURAS	30.4	1.6	11.0	17.8	.0	.0	17.8
JAMAICA	18.1	.1	11.0	7.0	.0	.0	7.0
MEXICO	4832.6	61.5	308.6	4462.4	386.1	75.3	4923.9
NICARAGUA	40.5	.0	.0	40.5	.0	.0	40.5
PARAGUAY	3.7	.0	.6	3.1	.0	.0	3.1
PERU	442.1	1.8	69.6	370.7	.0	.0	370.7
TRINIDAD AND TOBAGO	22.1	.0	19.6	2.5	.0	.2	2.7
URUGUAY	123.3	1.4	5.6	116.3	.0	.0	116.3
OTHER	24.7	5.4	9.1	10.2	.0	.0	10.2
TOTALS	12940.5	207.7	784.1	11948.6	1050.7	229.8	13229.2
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	96.6	.0	.0	96.6	167.8	2.5	267.0
CHINA,TAIWAN	505.8	37.0	11.1	457.7	50.1	19.2	527.0
INDIA	151.1	.0	.7	150.4	94.7	74.1	319.3
ISRAEL	269.4	64.5	19.6	185.3	16.4	3.0	204.7
JORDAN	9.5	.1	1.1	8.3	35.1	.0	43.4
KOREA, SOUTH	2697.5	336.6	34.6	2326.2	277.4	144.7	2748.4
MALAYSIA	265.6	1.5	.0	264.1	57.8	5.0	326.9
PAKISTAN	1.7	1.1	.0	.6	2.0	.0	2.6
PHILIPPINES	1188.6	14.5	59.7	1114.3	14.9	36.0	1165.2
SYRIA	3.0	.0	2.0	1.0	.0	.0	1.0

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES BORROWINGS OF BANKS	BORROWINGS OF NONBANKS	TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
NON-OIL EXP DEV COUNTRIES-ASIA							
THAILAND	514.5	11.3	8.6	494.6	185.6	2.2	682.4
OTHER	76.2	19.3	4.5	52.4	1.0	2.0	55.4
TOTALS	5779.8	486.0	142.0	5151.7	823.0	288.8	6263.6
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.8	.0	1.3	23.5	.0	.0	23.5
EGYPT	189.6	50.1	10.7	128.8	20.4	.6	149.8
GHANA	2.0	.0	2.0	.0	.0	.0	.0
IVORY COAST	43.6	.0	.0	43.6	.0	.0	43.6
KENYA	.4	.0	.0	.4	.0	.0	.4
MALAWI	4.2	.0	.0	4.2	.0	.0	4.2
MOROCO	94.6	13.5	.2	80.9	3.0	4.0	87.9
SENEGAL	2.4	.0	.0	2.4	.0	.0	2.4
SUDAN	.7	.4	.3	.0	.0	.0	.0
TUNISIA	6.6	1.0	.0	5.6	.0	.0	5.6
ZAIRE	2.0	.0	2.0	.0	.0	.0	.0
ZAMBIA	3.9	.0	.0	3.9	.0	.0	3.9
OTHER	71.8	5.1	18.3	48.4	.0	.0	48.4
TOTALS	446.0	70.1	34.0	341.9	23.4	4.6	369.9
OFFSHORE BANKING CENTERS							
BAHAMAS	993.3	813.0	32.5	147.7	6.0	3.0	156.8
BAHRAIN	415.4	221.6	5.0	188.7	69.4	14.1	272.3
BERMUDA	48.3	.0	.0	48.3	.0	9.0	57.4
BRITISH WEST INDIES	1987.2	1946.0	17.7	23.5	.0	2.0	25.5
HONG KONG	1707.6	1092.3	88.6	526.6	61.0	102.3	689.9
LEBANON	7.4	.0	2.4	5.0	1.9	.0	6.9
LIBERIA	227.2	.0	198.1	29.0	.0	.0	29.0
MACAO	84.3	50.6	.8	32.9	.0	.0	32.9
NETHERLANDS ANTILLES	99.4	26.3	44.5	28.6	.0	12.7	41.3
PANAMA	783.1	548.2	68.4	166.5	7.8	23.7	197.2
SINGAPORE	1472.6	1272.3	29.4	170.9	17.4	11.6	199.9
TOTALS	7826.0	5970.2	487.6	1368.0	162.7	178.6	1709.3
INTERNATIONAL & REGIONAL ORGANIZATIONS							
INTERNATIONAL	112.0	.0	.0	112.0	.0	10.0	122.0
LATIN AMERICAN REGIONAL	4.0	.0	.0	4.0	.0	10.0	14.0
W. EUROPEAN REGIONAL	166.0	.0	.0	166.0	.0	30.0	196.0
TOTALS	282.0	.0	.0	282.0	.0	50.0	332.0
**** GRAND **** ** TOTALS **	57284.0	13479.2	2516.4	41290.3	20116.1	2166.4	63572.8

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1544.9	1507.1	16.3	21.4	1517.3	23.2	4.3
CANADA	2353.4	1505.3	67.2	780.7	2060.1	123.7	169.5
FRANCE	2184.3	1870.9	230.3	83.1	1856.8	175.3	152.2
GERMANY, FEDERAL REPUBLIC OF	358.2	191.7	18.9	147.5	274.9	56.8	26.5
ITALY	1401.1	846.4	360.6	194.0	929.2	301.8	170.0
JAPAN	2817.1	2119.3	32.4	665.3	2478.9	310.0	28.2
NETHERLANDS	427.5	135.0	119.0	173.4	242.3	50.4	134.7
SWEDEN	608.4	468.8	72.6	67.0	499.4	44.1	64.9
SWITZERLAND	541.6	444.7	5.5	91.3	403.2	2.8	135.6
UNITED KINGDOM	8385.9	6893.3	413.9	1078.5	7455.8	746.9	183.1
TOTALS	20622.8	15982.9	1337.2	3302.6	17718.3	1835.2	1069.2
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	1289.0	210.2	127.8	950.9	623.7	340.7	324.6
AUSTRIA	307.8	285.2	18.6	4.0	288.1	17.7	2.0
DENMARK	304.5	263.3	25.0	16.2	276.4	12.1	16.0
FINLAND	280.9	254.6	16.1	10.2	253.6	12.2	15.1
GREECE	261.4	30.3	112.4	118.7	98.1	124.3	39.0
ICELAND	24.8	24.8	.0	.0	18.5	5.3	1.0
IRELAND, REPUBLIC OF	214.4	52.7	113.6	48.0	68.9	89.0	56.4
NEW ZEALAND	251.9	25.8	11.7	214.3	141.5	26.9	83.4
NORWAY	371.3	261.4	8.9	101.0	285.0	28.2	58.0
PORTUGAL	241.9	132.9	85.7	23.2	170.3	53.2	18.4
SOUTH AFRICA	738.8	636.0	53.6	49.1	616.2	100.8	21.8
SPAIN	706.8	340.3	114.5	251.9	437.5	135.3	134.0
TURKEY	448.9	144.3	275.2	29.3	243.1	178.4	27.5
OTHER	12.5	5.3	6.6	.6	6.0	6.4	.1
TOTALS	5455.6	2667.6	970.0	1817.9	3527.2	1130.8	797.4
EASTERN EUROPE							
BULGARIA	9.5	5.1	.0	4.4	9.5	.0	.0
CZECHOSLOVAKIA	10.0	10.0	.0	.0	1.0	9.0	.0
GERMAN DEMOCRATIC REPUBLIC	41.2	32.3	.0	8.9	23.2	17.6	.3
HUNGARY	146.4	37.5	108.9	.0	87.0	35.4	24.0
POLAND	87.1	40.4	42.7	4.0	13.2	55.7	18.1
ROMANIA	13.9	3.2	10.7	.0	4.4	8.0	1.5
U.S.S.R.	11.2	3.0	.0	8.2	6.7	4.5	.0
YUGOSLAVIA	426.4	255.7	148.0	22.5	188.3	200.7	37.3
TOTALS	745.9	387.3	310.4	48.1	333.5	331.0	81.3
OPEC MEMBERS							
ALGERIA	238.4	112.3	52.9	73.1	66.6	69.7	102.1
ECUADOR	297.3	13.4	265.3	18.5	130.7	154.8	31.8
GABON	5.6	.0	5.3	.3	4.6	1.0	.0
INDONESIA	377.2	149.8	92.7	134.7	243.5	84.4	49.2

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	MATURITY OF DISTRIBUTION OF AMOUNTS OWED ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OPEC MEMBERS							
IRAN	2.0	.0	.0	2.0	2.0	.0	.0
IRAQ	78.3	37.6	40.7	.0	51.7	26.5	.1
KUWAIT	97.7	82.2	.0	15.5	91.7	6.0	.0
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	187.8	48.1	129.1	10.5	136.6	36.5	14.6
QATAR	.0	.0	.0	.0	.0	.0	.0
SAUDI ARABIA	94.6	31.1	.6	62.8	85.6	8.0	1.0
UNITED ARAB EMIRATES	82.2	60.7	11.3	10.2	66.2	10.0	6.0
VENEZUELA	1722.6	597.4	537.5	587.5	1512.9	204.1	5.5
TOTALS	3184.3	1133.0	1135.7	915.4	2392.7	581.1	210.4
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	1592.0	472.7	751.3	368.0	1035.9	470.3	85.8
BOLIVIA	37.0	7.8	27.6	1.6	36.9	.1	.0
BRAZIL	4108.9	1799.4	1666.7	642.7	1770.7	1462.7	875.4
CHILE	1091.4	579.4	388.6	123.4	488.3	466.9	136.1
COLOMBIA	364.2	241.3	69.0	53.9	281.7	61.2	21.2
COSTA RICA	124.4	12.8	101.5	10.1	45.3	55.0	24.0
DOMINICAN REPUBLIC	64.0	17.9	42.1	4.0	43.7	20.3	.0
EL SALVADOR	6.8	1.6	2.6	2.6	6.8	.0	.0
GUATEMALA	13.8	5.4	2.0	6.4	8.9	4.8	.1
HONDURAS	30.4	7.0	21.4	2.0	20.0	10.2	.2
JAMAICA	18.1	.1	18.0	.0	10.2	7.9	.0
MEXICO	4832.6	852.2	2192.6	1787.7	1716.5	1923.7	1192.3
NICARAGUA	40.5	.0	35.5	5.0	29.2	6.0	5.3
PARAGUAY	3.7	1.4	1.0	1.3	3.7	.0	.0
PERU	442.1	97.2	281.6	63.3	307.7	104.6	29.8
TRINIDAD AND TOBAGO	22.1	.5	21.6	.0	1.5	1.0	19.6
URUGUAY	123.3	8.7	99.1	15.5	68.6	52.7	1.9
OTHER	24.7	10.3	11.2	3.2	16.8	6.9	1.0
TOTALS	12940.5	4116.0	5733.7	3090.8	5892.8	4654.6	2393.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	96.6	81.4	6.0	9.1	92.6	2.0	2.0
CHINA,TAIWAN	505.8	240.7	94.1	170.9	326.2	127.0	52.5
INDIA	151.1	72.1	28.4	50.6	100.2	21.2	29.7
ISRAEL	269.4	231.0	33.8	4.6	215.1	46.7	7.6
JORDAN	9.5	4.3	4.1	1.1	5.3	4.2	.0
KOREA, SOUTH	2697.5	1766.3	414.1	517.0	2007.2	520.9	169.3
MALAYSIA	265.6	62.9	130.3	72.4	96.9	72.9	95.6
PAKISTAN	1.7	1.7	.0	.0	1.7	.0	.0
PHILIPPINES	1188.6	261.3	707.0	220.2	893.9	195.4	99.2
SYRIA	3.0	.0	.0	3.0	3.0	.0	.0
THAILAND	514.5	364.0	18.7	131.7	421.8	86.5	6.1
OTHER	76.2	49.9	14.2	12.1	52.0	20.5	3.7

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
TOTALS	5779.8	3135.9	1450.8	1193.0	4216.3	1097.5	465.9
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.8	.0	0	24.8	6.9	17.9	.0
EGYPT	189.6	173.0	7.2	9.4	125.0	64.6	.0
GHANA	2.0	.0	2.0	.0	1.0	1.0	.0
IVORY COAST	43.6	.3	38.7	4.6	19.0	20.7	3.9
KENYA	.4	.4	.0	.0	.0	.4	.0
MALAWI	4.2	3.8	.4	.0	4.0	.2	.0
MOROCO	94.6	58.6	30.8	5.2	76.8	17.8	.0
SENEGAL	2.4	.0	2.4	.0	.2	2.1	.1
SUDAN	.7	.4	.3	.0	.7	.0	.0
TUNISIA	6.6	6.0	.6	.0	3.6	.0	3.0
ZAIRE	2.0	.0	2.0	.0	.0	2.0	.0
ZAMBIA	3.9	.1	1.8	2.0	.3	3.5	.0
OTHER	71.8	19.4	42.2	10.1	46.0	22.9	2.9
TOTALS	446.8	262.0	128.6	56.2	283.6	153.2	9.9
OFFSHORE BANKING CENTERS							
BAHAMAS	993.3	885.2	12.0	96.0	983.7	9.1	.4
BAHRAIN	415.4	405.0	7.0	3.4	410.0	5.4	.0
BERMUDA	48.3	6.2	.0	42.1	43.1	5.2	.0
BRITISH WEST INDIES	1987.2	1958.3	14.2	14.7	1955.5	25.7	6.0
HONG KONG	1707.6	1308.8	6.3	392.4	1597.5	77.0	33.0
LEBANON	7.4	4.0	.0	3.4	7.0	.4	.0
LIBERIA	227.2	1.6	5.6	219.9	63.6	99.4	64.1
MACAO	84.3	68.1	.0	16.2	79.9	.9	3.5
NETHERLANDS ANTILLES	99.4	45.2	.0	54.2	67.3	25.1	7.0
PANAMA	783.1	675.6	24.1	83.4	715.5	34.9	32.7
SINGAPORE	1472.4	1362.1	9.0	101.3	1422.8	42.3	7.3
TOTALS	7826.0	6720.3	78.2	1027.3	7346.4	325.5	154.0
INTERNATIONAL & REGIONAL ORGANIZATIONS							
INTERNATIONAL	112.0	.0	112.0	.0	7.0	17.0	88.0
LATIN AMERICAN REGIONAL	4.0	.0	4.0	.0	.0	1.0	3.0
W. EUROPEAN REGIONAL	166.0	.0	166.0	.0	38.0	65.0	63.0
TOTALS	282.0	.0	282.0	.0	45.0	83.0	154.0
**** GRAND **** ** TOTALS **	57284.0	34405.3	11426.9	11451.7	41756.2	10192.3	5335.6

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS: SEPTEMBER 1985

(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	64.4	13.3	51.1	7.7	39.5	96.2
CANADA	753.0	101.1	651.9	40.8	34.8	747.0
FRANCE	965.2	159.9	805.3	4.5	77.5	1038.3
GERMANY, FEDERAL REPUBLIC OF	312.4	73.1	239.3	11.8	174.7	475.4
ITALY	146.7	37.2	109.4	3.0	25.0	168.8
JAPAN	741.1	107.3	633.8	6.0	348.1	1083.2
NETHERLANDS	157.7	35.6	122.0	55.8	28.3	130.2
SWEDEN	181.2	2.1	179.1	.1	17.0	198.1
SWITZERLAND	226.2	128.0	98.2	7.9	38.0	256.3
UNITED KINGDOM	1404.4	265.3	1139.0	282.7	229.0	1350.7
TOTALS	4952.8	923.4	4029.4	420.4	1012.2	5544.6
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	830.5	274.4	556.0	9.0	23.6	845.1
AUSTRIA	4.5	.8	3.7	.1	13.0	17.4
DENMARK	23.2	5.1	18.1	.0	23.0	46.2
FINLAND	28.8	26.8	2.0	.0	12.6	41.5
GREECE	41.5	5.8	35.7	.0	2.9	44.4
ICELAND	6.0	.0	6.0	.0	.0	6.0
IRELAND, REPUBLIC OF	55.5	23.6	31.9	7.8	.0	47.7
NEW ZEALAND	168.1	32.6	135.5	.0	5.3	173.4
NORWAY	57.3	4.4	52.8	.1	8.1	65.3
PORTUGAL	97.5	3.8	93.7	70.2	.0	27.3
SOUTH AFRICA	53.2	7.6	45.6	42.1	5.3	16.4
SPAIN	81.1	42.7	38.4	7.0	.0	74.2
TURKEY	65.7	60.6	5.1	15.7	.0	50.0
OTHER	3.3	3.3	.0	.2	1.0	4.1
TOTALS	1516.5	491.8	1024.7	152.2	95.0	1459.3
EASTERN EUROPE						
BULGARIA	.0	.0	.0	.0	.0	.0
CZECHOSLOVAKIA	.0	.0	.0	.0	.0	.0
GERMAN DEMOCRATIC REPUBLIC	23.0	1.0	22.0	.0	5.0	28.0
HUNGARY	.0	.0	.0	.0	.0	.0
POLAND	10.2	9.8	.4	6.6	.0	3.6
ROMANIA	13.2	6.2	7.0	.0	.0	13.2
U.S.S.R.	.0	.0	.0	.0	.0	.0
YUGOSLAVIA	60.9	8.0	52.9	.0	.0	60.9
TOTALS	107.4	25.0	82.3	6.6	5.0	105.8
OPEC MEMBERS						
ALGERIA	24.9	3.9	21.0	.0	.0	24.9
ECUADOR	26.3	15.9	10.4	1.2	.0	25.1
GABON	1.1	.0	1.1	.0	.0	1.1
INDONESIA	148.5	26.4	122.0	16.0	29.7	162.2
IRAN	.0	.0	.0	.0	.0	.0
IRAQ	19.3	3.4	15.9	1.7	.0	17.6

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
PEC MEMBERS						
KUWAIT	34.2	29.2	5.0	.0	.0	34.2
LIBYA	1.9	1.9	.0	.0	.0	1.9
NIGERIA	45.5	20.8	24.7	11.0	.0	34.5
QATAR	.0	.0	.0	.0	1.0	1.0
SAUDI ARABIA	94.2	37.9	56.2	2.9	.0	91.2
UNITED ARAB EMIRATES	17.6	15.6	2.0	.2	1.5	18.9
VENEZUELA	49.4	45.6	3.8	6.5	.0	42.9
TOTALS	463.2	200.9	262.3	39.5	32.2	455.8
ON OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	195.0	45.6	149.4	11.2	1.2	185.0
BOLIVIA	2.0	2.0	.0	1.5	.0	.5
BRAZIL	177.9	75.1	102.8	88.6	1.4	90.7
CHILE	61.2	35.1	26.1	5.0	.0	56.2
COLOMBIA	54.5	38.4	16.1	1.9	.2	52.8
COSTA RICA	13.4	1.6	11.8	8.2	.0	5.2
DOMINICAN REPUBLIC	7.0	7.0	.0	6.4	.0	.6
EL SALVADOR	2.6	2.6	.0	2.4	.0	.2
GUATEMALA	3.4	3.4	.0	2.4	.0	1.0
HONDURAS	15.2	15.2	.0	15.2	.0	.0
JAMAICA	4.5	4.5	.0	.0	.0	4.5
MEXICO	241.4	182.5	58.9	77.2	.0	164.1
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	1.8	1.8	.0	1.3	.0	.5
PERU	51.6	14.5	37.1	14.8	.0	36.8
TRINIDAD AND TOBAGO	.0	.0	.0	.0	.0	.0
URUGUAY	3.8	3.1	.7	.5	.0	3.3
OTHER	6.8	6.3	.5	3.2	.0	3.6
TOTALS	842.5	438.9	403.6	239.9	2.8	605.3
N-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	46.0	1.0	45.0	4.0	16.1	58.1
CHINA,TAIWAN	66.8	56.2	10.6	.0	20.3	87.1
INDIA	38.0	24.6	13.4	.0	5.1	43.1
ISRAEL	3.6	3.6	.0	.0	.2	3.8
JORDAN	1.1	1.1	.0	.2	.6	1.5
KOREA, SOUTH	232.0	127.3	104.6	.0	36.3	268.3
MALAYSIA	18.7	.9	17.8	.0	.0	18.7
PAKISTAN	3.0	3.0	.0	2.0	.0	1.0
PHILIPPINES	110.9	32.1	78.8	57.8	1.9	55.0
SYRIA	4.1	4.1	.0	.0	.0	4.1
THAILAND	128.4	74.6	53.8	.2	.2	128.4
OTHER	20.9	14.4	6.5	5.2	2.0	17.7
TOTALS	673.7	343.1	330.5	69.4	82.7	687.1

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
15 OTHER LARGE BANKS

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	14.6	2.2	12.4	10.7	.0	3.9
EGYPT	57.6	54.6	3.0	6.0	.2	51.8
GHANA	.3	.3	.0	.0	.7	1.0
IVORY COAST	3.2	1.2	2.0	.1	.0	3.1
KENYA	.5	.5	.0	.1	.0	.4
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	.0	.0	.0	.0	.0	.0
SENEGAL	.0	.0	.0	.0	.0	.0
SUDAN	.3	.3	.0	.3	.0	.0
TUNISIA	1.5	.5	1.0	.0	.0	1.5
ZAIRE	.6	.6	.0	.6	.0	.0
ZAMBIA	2.4	2.4	.0	.0	.0	2.4
OTHER	8.5	7.5	1.0	3.2	.0	5.3
TOTALS	89.5	70.1	19.4	21.0	.9	69.4
OFFSHORE BANKING CENTERS						
BAHAMAS	5.0	5.0	.0	.8	4.3	8.5
BAHRAIN	2.0	2.0	.0	1.3	.0	.7
BERMUDA	347.8	266.8	81.0	90.9	11.8	268.6
BRITISH WEST INDIES	8.0	7.5	.5	1.2	.0	6.8
HONG KONG	236.5	190.6	45.8	43.8	11.9	204.5
LEBANON	9.2	9.2	.0	1.3	.6	8.5
LIBERIA	22.4	9.4	13.0	14.2	.0	8.2
MACAO	9.6	1.0	8.6	.6	.0	9.0
NETHERLANDS ANTILLES	30.7	2.2	28.5	10.5	.2	20.4
PANAMA	55.3	46.7	8.6	8.1	.1	47.3
SINGAPORE	66.1	40.8	25.3	22.2	1.1	45.0
TOTALS	792.9	581.5	211.4	195.2	30.0	627.7
INTERNATIONAL & REGIONAL ORGANIZATIONS						
INTERNATIONAL	.0	.0	.0	.0	1.5	1.5
LATIN AMERICAN REGIONAL	.0	.0	.0	.0	9.1	9.1
W. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
TOTALS	.0	.0	.0	.0	10.6	10.6
**** GRAND **** ** TOTALS **	9438.9	3075.1	6363.8	1144.5	1271.5	9565.9

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
OPEC MEMBERS							
GABON	7.6	.0	.0	7.6	.0	.0	7.6
INDONESIA	119.7	.0	10.5	109.1	25.0	11.0	145.1
IRAN	.1	.0	.0	.1	.0	.0	.1
IRAQ	48.0	43.0	.0	5.0	.0	.0	5.0
KUWAIT	83.4	.0	1.0	82.4	46.0	.0	128.4
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	124.6	2.1	26.6	95.9	.0	.0	95.9
QATAR	1.0	.0	.0	1.0	.0	.0	1.0
SAUDI ARABIA	75.9	.0	13.4	62.4	15.0	4.3	81.7
UNITED ARAB EMIRATES	37.3	17.5	.0	19.8	29.0	.0	48.9
VENEZUELA	1248.1	5.1	66.2	1176.8	15.3	4.2	1196.3
TOTALS	2270.2	69.5	144.3	2056.3	130.4	25.6	2212.4
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	922.4	4.2	39.1	879.0	24.2	3.0	906.3
BOLIVIA	27.9	.3	1.5	26.1	.0	.0	26.1
BRAZIL	3282.7	55.5	131.1	3096.0	290.7	23.6	3410.4
CHILE	1322.0	29.7	40.1	1252.0	1.1	7.4	1260.6
COLOMBIA	339.5	10.7	6.5	322.3	9.0	.4	331.7
COSTA RICA	96.5	.6	11.2	84.7	.0	.0	84.7
DOMINICAN REPUBLIC	70.4	1.0	8.7	60.6	.0	.0	60.6
EL SALVADOR	56.7	19.7	8.7	28.3	.0	.5	28.8
GUATEMALA	68.4	23.3	24.9	20.1	.0	.1	20.2
HONDURAS	31.4	7.5	3.6	20.2	.0	.0	20.2
JAMAICA	28.3	.0	11.8	16.5	.0	.0	16.5
MEXICO	6168.6	188.0	485.4	5495.1	358.3	70.7	5924.2
NICARAGUA	9.9	.0	.0	9.9	.0	.0	9.9
PARAGUAY	22.9	.0	.2	22.7	.0	.0	22.7
PERU	332.8	8.6	19.3	304.8	.3	.2	305.4
TRINIDAD AND TOBAGO	7.5	.0	.0	7.5	.0	.0	7.5
URUGUAY	86.3	1.0	8.5	76.7	.0	2.6	79.4
OTHER	52.9	44.0	.2	8.7	3.0	.3	12.0
TOTALS	12927.9	394.3	801.4	11732.1	686.6	109.2	12528.0
NON-OIL EXP DEV COUNTRIES-ASIA							
CHINA, MAINLAND	52.7	.0	.0	52.7	51.5	.1	104.4
CHINA, TAIWAN	377.4	59.0	.1	318.3	103.3	32.5	454.1
INDIA	28.0	.0	.0	28.0	129.4	1.6	159.0
ISRAEL	345.6	.0	15.6	330.0	11.5	271.0	612.5
JORDAN	32.5	5.0	.0	27.5	39.0	2.0	68.6
KOREA, SOUTH	1442.9	69.4	13.9	1359.6	395.6	136.1	1891.4
MALAYSIA	107.9	1.0	.3	106.6	32.1	3.0	141.7
PAKISTAN	2.8	.0	.5	2.2	.0	.0	2.2
PHILIPPINES	474.5	18.9	22.0	433.5	17.5	7.3	458.3

COUNTRY EXPOSURE LENDING SURVEY, SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES BORROWINGS OF BANKS	BORROWINGS OF NONBANKS	TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1572.3	781.8	6.5	783.9	379.1	35.5	1198.5
CANADA	2446.2	143.5	24.3	2278.2	2472.4	111.2	4861.9
FRANCE	2046.8	439.9	.2	1606.6	2061.5	55.5	3723.7
GERMANY, FEDERAL REPUBLIC OF	527.8	118.2	7.9	401.7	1481.5	168.8	2052.1
ITALY	1375.6	88.3	5.1	1282.1	1381.2	28.8	2692.2
JAPAN	2118.5	117.4	1.8	1999.3	12078.0	535.6	14615.0
NETHERLANDS	485.6	105.4	10.7	369.5	837.5	91.1	1298.2
SWEDEN	1377.1	113.3	.0	1263.8	123.5	36.5	1423.9
SWITZERLAND	437.0	30.6	4.0	402.4	622.3	40.4	1065.2
UNITED KINGDOM	12523.1	8126.6	45.2	4351.2	1829.6	248.2	6429.1
TOTALS	24910.5	10065.4	105.9	14739.2	23267.0	1351.8	39358.1
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	642.4	21.3	31.4	589.7	1082.2	40.0	1712.0
AUSTRIA	300.8	10.0	.0	290.8	169.0	27.4	487.2
DENMARK	250.6	12.0	2.0	236.6	254.3	22.5	513.4
FINLAND	534.0	68.8	.4	464.8	61.1	7.2	533.2
GREECE	147.7	.0	1.0	146.7	5.0	5.0	156.7
ICELAND	16.4	.0	1.1	15.3	5.0	.9	20.4
IRELAND, REPUBLIC OF	139.0	.0	.0	139.0	125.6	6.4	271.1
NEW ZEALAND	142.2	1.1	.2	140.8	101.4	8.1	250.4
NORWAY	389.3	7.0	46.1	336.2	22.5	19.0	377.7
PORTUGAL	237.8	68.5	.3	168.9	129.8	.0	298.8
SOUTH AFRICA	288.5	7.0	35.1	246.4	19.0	17.0	282.4
SPAIN	644.1	60.0	6.0	578.0	296.7	10.5	885.1
TURKEY	216.4	.0	50.6	165.8	3.0	.0	168.8
OTHER	48.8	24.0	4.4	20.4	.0	1.3	21.7
TOTALS	3998.7	279.9	178.7	3540.0	2275.1	169.5	5979.7
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	3.0	.0	.0	3.0	.0	.0	3.0
CZECHOSLOVAKIA	20.1	.0	.0	20.1	.0	.0	20.1
GERMAN DEMOCRATIC REPUBLIC	55.9	.0	1.0	54.9	111.5	.4	166.9
HUNGARY	109.2	5.4	6.3	97.5	.0	1.0	98.5
POLAND	97.6	.8	.0	96.8	8.9	.0	105.8
ROMANIA	15.6	.0	.0	15.6	.0	.0	15.6
U.S.S.R.	2.2	.0	.0	2.2	.0	.0	2.2
YUGOSLAVIA	428.3	17.1	41.0	370.1	.0	8.8	378.9
TOTALS	732.2	23.3	48.3	660.5	120.5	10.2	791.2
OPEC MEMBERS							
ALGERIA	43.3	.0	.0	43.3	.0	1.0	44.3
ECUADOR	481.1	1.8	26.4	452.9	.0	5.1	458.0

COUNTRY EXPOSURE LENDING SURVEY: SEPTEMBER 1985
TABLE I AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS
(INCLUDES ADJUSTMENTS TO REFLECT GUARANTEES AND INDIRECT BORROWINGS)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL AMOUNT OWED BY COUNTRY OF BORROWERS RESIDENCE	PORTION OF TOTAL THAT IS GUARANTEED BY RESIDENTS OF OTHER COUNTRIES		TOTAL AMOUNT OWED LESS AMOUNTS GUARANTEED	AMOUNTS BORROWED BY FOREIGN OFFICES OF REPORTED COUNTRY'S BANKS	AMOUNTS OWED BY BORROWERS IN OTHER COUNTRIES GUARANTEED BY NON-BANKS IN REPORTED COUNTRY	TOTAL AMOUNTS OWED U.S. BANKS AFTER ADJUSTMENTS FOR GUARANTEES AND EXTERNAL BORROWING
		BORROWINGS OF BANKS	BORROWINGS OF NONBANKS				
NON-OIL EXP DEV COUNTRIES-ASIA							
SYRIA	12.7	.0	.0	12.7	.0	.0	12.7
THAILAND	149.4	6.2	.5	142.7	68.0	.6	211.3
OTHER	101.2	10.3	2.7	88.2	30.9	.3	119.5
TOTALS	3128.2	169.8	55.6	2902.6	878.9	454.6	4236.3
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.3	.0	1.0	23.3	.0	.0	23.3
EGYPT	92.2	47.0	2.8	42.4	7.0	.0	49.4
GHANA	2.1	.0	2.1	.0	.0	.0	.0
IVORY COAST	65.2	.0	3.1	62.1	.0	.0	62.1
KENYA	1.0	.0	1.0	.0	.0	.0	.0
MALAWI	2.2	.0	.0	2.2	.0	.0	2.2
MOROCO	162.7	44.0	.0	118.7	.0	.0	118.7
SENEGAL	2.5	.0	.0	2.5	.0	.0	2.5
SUDAN	5.0	.0	.3	4.7	.0	.0	4.7
TUNISIA	5.0	.0	.0	5.0	.0	.0	5.0
ZAIRE	.6	.0	.5	.1	.0	.0	.1
ZAMBIA	2.4	.0	2.0	.4	.0	.0	.4
OTHER	50.2	7.8	8.7	33.7	.0	.7	34.4
TOTALS	415.7	98.8	21.5	295.3	7.0	.8	303.2
OFFSHORE BANKING CENTERS							
BAHAMAS	3763.3	3646.8	29.2	87.2	15.0	3.5	105.7
BAHRAIN	139.6	60.6	.0	79.0	58.1	.8	137.9
BERMUDA	60.8	3.8	1.2	55.8	.0	6.9	62.7
BRITISH WEST INDIES	4496.2	4379.2	30.0	86.9	34.8	8.0	129.7
HONG KONG	895.4	546.4	34.5	314.4	92.1	3.1	409.7
LEBANON	10.1	.0	.0	10.1	2.5	.0	12.6
LIBERIA	178.0	.0	143.0	35.0	.0	4.9	40.0
MACAO	1.5	1.5	.0	.0	.0	.0	.0
NETHERLANDS ANTILLES	187.6	59.4	77.1	51.0	.0	14.1	65.1
PANAMA	529.4	211.0	162.0	156.4	5.0	8.0	169.4
SINGAPORE	1188.7	1149.3	2.5	36.9	108.6	.0	145.5
TOTALS	11451.1	10058.3	479.7	913.1	316.1	49.4	1278.7
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
ASIAN REGIONAL	1.0	.0	.0	1.0	.0	.0	1.0
INTERNATIONAL	84.7	.0	3.0	81.7	.0	5.0	86.7
LATIN AMERICAN REGIONAL	9.1	.0	.0	9.1	.0	.0	9.1
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	32.0	.0	.0	32.0	3.6	.0	35.6
TOTALS	126.8	.0	3.0	123.8	3.6	5.0	132.4
Grand Totals	59961.7	21159.4	1838.8	36963.4	27685.5	2171.1	66820.1

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS: SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
G-10 AND SWITZERLAND							
BELGIUM-LUXEMBOURG	1572.3	1460.7	82.9	28.6	1474.1	48.8	49.4
CANADA	2446.2	2042.3	146.2	257.6	2016.0	183.0	247.0
FRANCE	2046.8	1832.2	119.0	95.6	1693.8	223.2	129.7
GERMANY, FEDERAL REPUBLIC OF	527.8	388.7	61.4	77.7	353.4	152.6	21.8
ITALY	1375.6	927.1	290.7	157.7	880.8	324.8	169.9
JAPAN	2118.5	1820.4	7.4	290.7	1784.5	246.4	87.5
NETHERLANDS	485.6	407.6	.0	78.0	386.2	36.9	62.5
SWEDEN	1377.1	1119.2	178.0	79.8	1204.8	30.3	142.0
SWITZERLAND	437.0	348.7	11.1	77.1	391.0	7.1	38.9
UNITED KINGDOM	12523.1	11733.8	193.2	596.0	11733.6	580.4	209.0
TOTALS	24910.5	22081.1	1090.1	1739.2	21918.7	1833.8	1157.9
NON G-10 DEVELOPED COUNTRIES							
AUSTRALIA	642.4	229.9	28.6	383.8	462.2	64.9	115.3
AUSTRIA	300.8	262.5	20.1	18.1	239.1	31.7	30.0
DENMARK	250.6	181.2	27.7	41.6	193.9	32.9	23.6
FINLAND	534.0	462.5	39.0	32.5	468.7	46.3	19.0
GREECE	147.7	8.3	76.0	63.3	56.2	50.6	40.8
ICELAND	16.4	9.4	4.8	2.2	8.5	6.6	1.3
IRELAND, REPUBLIC OF	139.0	42.3	92.7	4.0	61.9	32.9	44.2
NEW ZEALAND	142.2	25.1	28.9	88.1	76.7	38.2	27.2
NORWAY	389.3	289.9	2.7	96.7	308.5	56.9	23.9
PORTUGAL	237.8	92.2	127.8	17.8	106.4	112.9	18.4
SOUTH AFRICA	288.5	150.3	41.7	96.4	229.8	55.0	3.7
SPAIN	644.1	220.3	146.9	276.8	277.6	274.8	91.6
TURKEY	216.4	35.5	176.3	4.5	79.3	130.5	6.5
OTHER	48.8	27.5	4.5	16.8	34.4	7.0	7.4
TOTALS	3998.7	2037.5	818.1	1143.0	2603.7	941.8	453.1
EASTERN EUROPE							
ALBANIA	.0	.0	.0	.0	.0	.0	.0
BULGARIA	3.0	.0	3.0	.0	3.0	.0	.0
CZECHOSLOVAKIA	20.1	2.0	17.1	1.0	12.6	7.4	.0
GERMAN DEMOCRATIC REPUBLIC	55.9	29.7	24.2	2.0	53.3	2.6	.0
HUNGARY	109.2	33.2	73.5	2.4	58.6	39.9	10.6
POLAND	97.6	22.7	68.9	6.0	40.1	40.3	17.0
ROMANIA	15.6	3.9	11.7	.0	1.6	14.0	.0
U.S.S.R.	2.2	.2	2.0	.0	2.1	.1	.0
YUGOSLAVIA	428.3	188.1	182.1	58.1	148.6	230.2	49.4
TOTALS	732.2	279.9	382.7	69.5	320.2	334.8	77.1
OPEC MEMBERS							
ALGERIA	43.3	11.9	30.0	1.4	10.3	21.7	11.2
ECUADOR	481.1	55.0	378.1	47.9	171.3	247.6	62.1
GABON	7.4	.0	7.4	.0	6.1	1.1	.1

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
OOPEC MEMBERS							
INDONESIA	119.7	13.0	53.3	53.4	51.8	41.5	26.2
IRAN	.1	.0	.0	.1	.1	.0	.0
IRAQ	48.0	48.0	.0	.0	38.0	10.0	.0
KUWAIT	83.4	62.7	.0	20.6	74.2	9.2	.0
LIBYA	.0	.0	.0	.0	.0	.0	.0
NIGERIA	124.6	9.7	105.7	9.2	60.5	60.0	4.1
QATAR	1.0	.0	.0	1.0	.0	.0	1.0
SAUDI ARABIA	75.9	12.7	3.4	59.7	66.4	9.5	.0
UNITED ARAB EMIRATES	37.3	28.3	.0	9.0	34.1	.2	3.0
VENEZUELA	1248.1	324.3	457.4	466.3	1024.5	181.3	42.1
TOTALS	2270.2	565.8	1035.5	668.6	1537.6	582.4	150.0
NNON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN							
ARGENTINA	922.4	257.8	486.8	177.7	559.2	321.3	41.8
BOLIVIA	27.9	5.9	8.1	13.8	18.0	6.9	3.0
BRAZIL	3282.7	1465.3	1393.8	423.5	1289.6	1284.9	708.1
CHILE	1322.0	779.8	391.0	151.0	376.0	697.4	248.5
COLOMBIA	339.5	108.0	135.0	96.4	189.2	116.7	33.5
COSTA RICA	96.5	6.9	77.7	11.8	43.5	40.5	12.5
DOMINICAN REPUBLIC	70.4	1.9	40.7	27.7	44.3	16.3	9.7
EL SALVADOR	56.7	45.5	9.0	2.0	33.1	23.5	.0
GUATEMALA	68.4	26.9	32.5	9.0	39.5	28.7	.2
HONDURAS	31.4	13.6	9.2	8.5	23.1	7.2	1.0
JAMAICA	28.3	.5	25.7	2.1	16.4	11.9	.0
MEXICO	6168.6	1075.0	3037.4	2056.1	1895.8	2205.5	2067.3
NICARAGUA	9.9	.0	9.9	.0	6.2	.9	2.8
PARAGUAY	22.9	4.9	12.3	5.6	17.3	5.6	.0
PERU	332.8	57.9	238.0	36.8	216.7	90.5	25.4
TRINIDAD AND TOBAGO	7.5	.0	7.5	.0	1.0	6.2	.2
URUGUAY	86.3	9.0	48.0	29.2	43.8	36.1	6.3
OTHER	52.9	44.0	8.0	.9	51.9	1.0	.0
TOTALS	12927.9	3903.4	5971.3	3053.1	4865.3	4901.8	3160.7
NNON-OIL EXP DEV COUNTRIES-ASIA							
CHINA,MAINLAND	52.7	36.6	9.6	7.1	39.6	7.6	5.4
CHINA,TAIWAN	377.4	202.1	74.4	100.8	274.8	63.1	39.4
INDIA	28.0	14.8	6.1	7.1	17.1	7.9	2.9
ISRAEL	345.6	136.0	157.5	52.1	154.9	159.8	30.8
JORDAN	32.5	32.5	.0	.0	32.5	.0	.0
KOREA, SOUTH	1442.9	1042.7	276.3	123.9	939.6	396.5	106.7
MALAYSIA	107.9	23.5	60.1	24.3	17.6	62.2	28.0
PAKISTAN	2.8	1.0	1.2	.5	2.1	.7	.0
PHILIPPINES	474.5	150.9	244.4	79.1	275.4	160.2	38.8
SYRIA	12.7	9.0	3.7	.0	12.7	.0	.0
THAILAND	149.4	120.4	3.5	25.4	136.2	10.5	2.5

TABLE II AMOUNTS OWED TO U.S. BANKS BY FOREIGN BORROWERS, SEPTEMBER 1985
(DATA BY TYPE OF BORROWER AND MATURITY DISTRIBUTION)
(AMOUNTS IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST

COUNTRY	TOTAL AMOUNT OWED (BY RESIDENCE OF BORROWER)	PORTION OF TOTAL OWED BY			MATURITY OF DISTRIBUTION OF AMOUNTS OWED		
		BANKS	PUBLIC BORROWERS	PRIVATE NONBANK BORROWERS	ONE YEAR AND UNDER	OVER ONE TO 5 YEARS	OVER 5 YEARS
NON-OIL EXP DEV COUNTRIES-ASIA							
OTHER	101.2	53.7	21.4	26.1	58.5	30.4	12.3
TOTALS	3128.2	1823.5	858.1	446.6	1961.6	899.1	267.2
NON-OIL EXP DEV COUNTRIES-AFRICA							
CAMEROON	24.3	.0	4.8	19.5	3.6	20.6	.0
EGYPT	92.2	80.6	4.5	7.1	64.6	27.5	.0
GHANA	2.1	.0	2.1	.0	.4	1.7	.0
IVORY COAST	65.2	.5	55.2	9.5	16.8	40.5	7.9
KENYA	1.0	.0	.0	1.0	1.0	.0	.0
MALAWI	2.2	.0	2.2	.0	1.0	1.1	.0
MOROCO	162.7	119.0	37.7	6.0	80.4	80.5	2.0
SENEGAL	2.5	.0	2.5	.0	.0	2.4	.0
SUDAN	5.0	.0	2.7	2.3	4.2	.3	.5
TUNISIA	5.0	5.0	.0	.0	2.2	2.8	.0
ZAIRE	.6	.0	.6	.0	.3	.3	.0
ZAMBIA	2.4	.0	.3	2.1	.8	1.6	.0
OTHER	50.2	9.3	31.4	9.4	21.6	22.0	6.5
TOTALS	415.7	215.2	143.5	56.9	197.4	201.3	16.9
OFFSHORE BANKING CENTERS							
BAHAMAS	3763.3	3721.9	8.8	32.6	3708.0	25.1	30.1
BAHRAIN	139.6	139.6	.0	.0	139.6	.0	.0
BERMUDA	60.8	37.3	.0	23.5	42.9	14.9	3.0
BRITISH WEST INDIES	4496.2	4452.6	26.5	17.0	4447.7	37.1	11.4
HONG KONG	895.4	754.5	.4	140.6	861.6	23.2	10.6
LEBANON	10.1	1.8	1.3	7.0	10.1	.0	.0
LIBERIA	178.0	2.8	5.7	169.5	79.1	80.6	18.3
MACAO	1.5	1.5	.0	.0	1.5	.0	.0
NETHERLANDS ANTILLES	187.6	76.0	10.6	101.0	94.6	59.3	33.8
PANAMA	529.4	228.7	104.0	196.7	344.4	132.8	52.2
SINGAPORE	1188.7	1177.2	2.5	9.0	1178.7	10.0	.0
TOTALS	11451.1	10594.4	159.9	696.7	10908.4	383.2	159.4
INTERNATIONAL & REGIONAL ORGANIZATIONS							
AFRICAN REGIONAL	.0	.0	.0	.0	.0	.0	.0
ASIAN REGIONAL	1.0	.0	1.0	.0	1.0	.0	.0
INTERNATIONAL	84.7	.0	84.7	.0	4.0	59.5	21.2
LATIN AMERICAN REGIONAL	9.1	.0	9.1	.0	.0	.0	9.1
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.0	.0	.0
W. EUROPEAN REGIONAL	32.0	.0	32.0	.0	13.0	16.0	3.0
TOTALS	126.8	.0	126.8	.0	18.0	75.5	33.3
**** GRAND **** ** TOTALS **	59961.7	41501.2	10586.3	7874.2	44331.3	10154.3	5476.0

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM.	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMT FOR GUARANTEE
G-10 AND SWITZERLAND						
BELGIUM-LUXEMBOURG	174.9	84.6	90.3	11.0	7.0	170.9
CANADA	275.8	77.9	197.9	7.9	67.2	335.1
FRANCE	377.7	105.6	272.1	.8	58.0	434.9
GERMANY, FEDERAL REPUBLIC OF	149.8	76.0	73.8	.0	40.7	190.5
ITALY	176.4	5.1	171.3	.0	6.2	182.7
JAPAN	702.0	116.3	585.7	4.3	327.3	1025.0
NETHERLANDS	95.1	33.1	62.0	.0	28.6	123.7
SWEDEN	266.7	.1	266.6	.0	7.0	273.7
SWITZERLAND	71.3	29.9	41.3	3.1	8.8	77.1
UNITED KINGDOM	600.6	278.2	322.4	3.6	235.4	832.3
TOTALS	2890.8	807.3	2083.4	30.8	786.5	3646.4
NON G-10 DEVELOPED COUNTRIES						
AUSTRALIA	183.5	92.6	90.9	1.1	49.3	231.7
AUSTRIA	29.3	7.3	22.0	.0	10.3	39.6
DENMARK	89.8	20.8	69.0	.0	15.0	104.8
FINLAND	53.1	2.1	51.0	.0	.0	53.1
GREECE	28.3	.0	28.3	.0	.0	28.3
ICELAND	.0	.0	.0	.0	.0	0
IRELAND, REPUBLIC OF	3.1	1.1	2.0	.7	.0	2.4
NEW ZEALAND	34.8	3.1	31.7	.0	3.4	38.2
NORWAY	23.3	10.5	12.8	4.0	1.1	20.4
PORTUGAL	22.0	8.2	13.8	.0	.0	22.0
SOUTH AFRICA	11.4	7.3	4.1	4.1	1.2	8.5
SPAIN	128.7	30.2	98.5	2.2	3.0	129.5
TURKEY	23.7	6.6	17.1	10.6	.0	13.1
OTHER	.5	.5	.0	.0	.0	.5
TOTALS	632.0	190.8	441.2	22.7	83.3	692.6
EASTERN EUROPE						
ALBANIA	.0	.0	.0	.0	0	0
BULGARIA	10.0	10.0	.0	.0	.0	10.0
CZECHOSLOVAKIA	.0	.0	.0	.0	.0	0
GERMAN DEMOCRATIC REPUBLIC	3.9	.3	3.6	.0	.0	3.9
HUNGARY	38.1	15.0	23.1	16.9	.0	21.2
POLAND	2.0	.0	2.0	.0	.0	2.0
ROMANIA	.1	.1	.0	.0	.0	.1
U.S.S.R.	10.0	.0	10.0	.0	.0	10.0
YUGOSLAVIA	17.5	3.0	14.5	8.3	.5	9.7
TOTALS	81.6	28.4	53.2	25.2	.5	56.9
OPEC MEMBERS						
ALGERIA	6.7	.0	6.7	.0	0	6.7
ECUADOR	75.8	42.4	33.3	12.0	1.4	65.1
GABON	3.0	1.0	2.0	.0	.0	3.0
INDONESIA	86.6	49.3	37.3	43.0	12.7	56.3
IRAN	.0	.0	.0	.0	0	0

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985

(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM. AFTER AJUSTMENT FOR GUARANTEES
OPEC MEMBERS						
IRAQ	30.0	20.0	10.0	10.0	.0	20.0
KUWAIT	28.4	10.3	18.0	2.0	.1	26.5
LIBYA	5.0	1.0	4.0	.0	.0	5.0
NIGERIA	18.5	12.3	6.2	6.2	.0	12.3
QATAR	1.1	.1	1.0	.0	.0	1.1
SAUDI ARABIA	51.3	19.9	31.4	1.5	4.2	54.0
UNITED ARAB EMIRATES	.8	.8	.0	.0	.3	1.1
VENEZUELA	40.8	38.8	2.0	13.0	.3	28.1
TOTALS	348.5	196.4	152.1	87.8	19.2	279.6
NON-OIL EXP DEV COUNTRIES-LATIN AM & CARIBBEAN						
ARGENTINA	52.2	24.2	27.9	5.5	.0	46.7
BOLIVIA	15.8	10.8	5.0	.0	.0	15.8
BRAZIL	141.1	41.6	99.5	36.7	.0	104.4
CHILE	49.6	27.9	21.7	5.0	.1	44.7
COLOMBIA	25.3	22.6	2.7	.0	.0	25.3
COSTA RICA	33.9	10.3	23.6	30.0	.0	3.9
DOMINICAN REPUBLIC	2.2	2.2	.0	.0	.0	2.2
EL SALVADOR	81.8	72.4	9.4	36.1	.0	45.7
GUATEMALA	34.8	26.7	8.1	14.0	.0	20.8
HONDURAS	26.8	26.8	.0	13.3	.0	13.4
JAMAICA	6.7	5.5	1.2	2.1	.0	4.6
MEXICO	193.8	146.0	47.8	28.2	4.2	169.8
NICARAGUA	.0	.0	.0	.0	.0	.0
PARAGUAY	.0	.0	.0	.0	.0	.0
PERU	28.3	25.0	3.3	7.6	.0	20.7
TRINIDAD AND TOBAGO	9.0	.0	9.0	9.0	.0	.0
URUGUAY	.7	.4	.3	.1	.0	.6
OTHER	2.6	2.6	.0	1.6	.0	1.0
TOTALS	705.4	445.6	259.8	190.3	4.3	519.3
NON-OIL EXP DEV COUNTRIES-ASIA						
CHINA,MAINLAND	1.5	.4	1.1	.0	.2	1.7
CHINA,TAIWAN	103.6	51.0	52.5	.0	.0	103.6
INDIA	19.6	17.4	2.2	.0	2.0	21.6
ISRAEL	38.2	32.0	6.2	11.1	10.0	37.1
JORDAN	8.5	1.5	7.0	.0	.0	8.5
KOREA, SOUTH	182.4	74.2	108.1	7.0	10.9	186.3
MALAYSIA	5.0	.0	5.0	.0	.0	5.0
PAKISTAN	3.1	1.1	2.0	.0	.0	3.1
PHILIPPINES	104.1	67.6	36.6	1.0	2.0	105.1
SYRIA	2.4	2.4	.0	.0	.0	2.4
THAILAND	39.5	10.0	29.5	.0	2.3	41.8
OTHER	7.4	7.1	.3	.3	.0	7.1
TOTALS	515.7	265.0	250.7	19.4	27.4	523.7

TABLE III CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT CLAIMS, SEPTEMBER 1985
(IN MILLIONS OF DOLLARS)
ALL OTHER BANKS (EXCLUDING THE 9 AND 15 LARGEST)

	TOTAL (BY COUNTRY OR RESIDENCE)	PORTION OF TOTAL CONSISTING OF LETTERS OF CREDIT	OTHER COMM	COMMITMENTS GUARANTEED BY RESIDENTS OF OTHER COUNTRY	COMMITMENTS TO RESIDENTS OF OTHER COUNTRIES GUARANTEED BY RESIDENTS OF REPORTED COUNTRIES	TOTAL COMM AFTER AJUSTMENT FOR GUARANTEES
NON-OIL EXP DEV COUNTRIES-AFRICA						
CAMEROON	1.3	1.3	.0	.0	.0	1.3
EGYPT	64.9	63.1	1.8	6.0	.0	58.9
GHANA	.0	.0	.0	.0	.0	.0
IVORY COAST	6.5	3.4	3.1	.0	.0	6.5
KENYA	.0	.0	.0	.0	.0	.0
MALAWI	.0	.0	.0	.0	.0	.0
MOROCO	40.0	39.0	1.0	.0	.0	40.0
SENEGAL	.0	.0	.0	.0	.0	.0
SUDAN	23.0	23.0	.0	.0	.0	23.0
TUNISIA	.0	.0	.0	.0	.0	.0
ZAIRE	.0	.0	.0	.0	.0	.0
ZAMBIA	.0	.0	.0	.0	.0	.0
OTHER	151.0	134.8	16.2	59.0	.2	92.2
TOTALS	286.9	264.7	22.1	65.0	.2	222.1
FFSHORE BANKING CENTERS						
BAHAMAS	30.0	23.7	6.3	17.7	.0	12.3
BAHRAIN	17.0	17.0	.0	.0	.0	17.0
BERMUDA	276.9	268.6	8.3	147.2	5.4	135.1
BRITISH WEST INDIES	7.2	6.7	.5	4.1	1.0	4.0
HONG KONG	118.2	96.9	21.3	32.3	1.6	87.5
LEBANON	14.9	5.0	9.9	.0	.2	15.2
LIBERIA	5.4	2.1	3.3	2.7	.0	2.7
MACAO	.0	.0	.0	.0	.0	.0
NETHERLANDS ANTILLES	50.0	24.9	25.1	35.9	3.0	17.1
PANAMA	75.6	66.6	9.0	34.4	1.0	42.2
SINGAPORE	65.1	50.1	15.0	49.0	.0	16.1
TOTALS	660.8	562.0	98.7	323.3	12.5	349.7
NTERNATIONAL & REGIONAL ORGANIZATIONS						
AFRICAN REGIONAL	1.1	.0	1.1	.0	.0	1.1
ASIAN REGIONAL	.0	.0	.0	.0	.0	.0
INTERNATIONAL	.0	.0	.0	.0	.0	.0
LATIN AMERICAN REGIONAL	2.1	2.1	.0	.0	1.6	3.8
MIDDLE EASTERN REGIONAL	.0	.0	.0	.0	.1	.0
W. EUROPEAN REGIONAL	.0	.0	.0	.0	.0	.0
TOTALS	3.2	2.1	1.1	.0	1.7	5.0
*** GRAND **** ** TOTALS **	6125.2	2762.5	3362.7	766.9	935.5	6295.7

TOTAL ADJUSTED CLAIMS ON FOREIGN BORROWERS
OF 24 LARGE U.S. BANK LENDERS
(Dollars in Billions)

Organizations	Total Adjusted Claims 1/
9 Largest	$187,540.5
Next 15	63,572.8
Total	$251,113.3

As of 9-30-85

1/ Claims are adjusted to reflect guarantees by parties in other countries, including the United States.

Source: Federal Reserve Board

DEBT RESCHEDULINGS SINCE 1980

ARGENTINA

August 1985	- Rescheduling of $9.9 billion in 1982-85 public sector maturities. (Terms: 10 years with 3 years grace)
	- Rescheduling of $3.5 billion in 1984-85 private sector maturities through the issuance of government promissory notes. Notes are used to either repay the private debt, resulting in a public sector obligation or guarantee the private sector obligation. (Terms: 10 years with 3 years grace)
November 1982	- Rescheduling of $5 billion in 1982-83 private sector maturities through the issuance of government promissory notes or bonds. Notes and bonds were used in the same manner as above. (Terms: 5 years with 3 years grace)

BRAZIL

March 1986	- Agreement in principle reached to reschedule $6.1 billion in 1985 public and private sector maturities. $9.7 billion in 1986 maturities will be extended for one year and included in an anticipated multi-year rescheduling in early 1987. The signing of this refinancing is expected by mid-year. (Terms: 7 years with 5 years grace)
January 1984	- Rescheduling of $5 billion in 1984 public and private sector maturities. (Terms: 9 years with 5 years grace)
February 1983	- Rescheduling of $4.9 billion in 1983 public and private sector maturities. (Terms: 8 years with 2 1/2 years grace)

CHILE

November 1985	- Rescheduling of $6 billion 1985-87 public and private sector maturities. (Terms: 12 years with 6 years grace)
July 1983	- Rescheduling of $3.4 billion in 1983-84 public and private sector maturities. (Terms: 8 years with 4 years grace)

LENDING TO LESS DEVELOPED NATIONS: [illegible]

MEXICO

March/August 1985	- Rescheduling of $43.7 billion in 1985-90 public sector maturities. Includes $23.6 billion in 1987-90 public sector maturities previously rescheduled in August 1983. (Terms: 14 years with 1 year grace)
August 1983	- Rescheduling of $23.6 billion in August 1982 to December 1984 public sector maturities. (Terms: 8 years with 4 years grace)
May 1983	- Under an institution established by the Government (FICORCA), approximately $12 billion of a total $18 billion in private sector debt has been registered. FICORCA provides foreign exchange at preferential rates to facilitate debt servicing in the private sector, assuming the borrower reaches a rescheduling agreement with its creditor banks. (Terms: 6-8 years with 3-4 years grace)

NIGERIA

July/September 1983	- Rescheduling of $1.8 billion in short-term trade transactions. (Terms: 3 years with 6 months grace)

PHILIPPINES

May 1985	- Rescheduling of $5.8 billion in October 1983 to December 1986 public and private sector maturities. (Terms: 10 years with 5 years grace)

VENEZUELA

February 1986	- Rescheduling of $20 billion in 1983-88 public sector maturities. (Terms: 12 1/2 years with no grace)
In Process	- Since early 1984, approximately $7 billion in private sector debt has been registered with RECADI, qualifying for preferential exchange to service debt. This is conditioned on a rescheduling agreement between the borrower and creditor bank. (Terms: 7 years with 2 years grace)

Source: IMF data, summarized and updated by OCC.

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

April 7, 1986

Mr. Christopher Tow
Counsel
Subcommittee on Financial Institutions
  Supervision, Regulation and Insurance
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Tow:

Per our discussion, I am enclosing additional information on national banks with loans to the oil and gas industries. These data are provided as a supplement to my March 25, 1986 testimony before the Senate Committee on Energy and Natural Resources. Should you have any questions regarding the enclosed, do not hesitate to call me.

Sincerely,

Jonathan Fiechter

Jonathan L. Fiechter, Director
Office of Economic & Policy Analysis

Enclosure

SUMMARY DATA FROM THE OCC SPECIAL ENERGY CALL REPORT

DATA FOR NATIONAL BANKS ONLY

(Data as of December 1985)

I. General Characteristics

Number of banks: 249

Total oil and gas loans: $39.6 billion

Median assets: $99.2 million

Median primary capital ratio: 7.8%

Bank Size Class	Number of Banks	Percent of Total O+G Loans
Under $300 million	178	2.8%
$300 million-$1 billion	29	3.4%
Over $1 billion	42	93.9%

II. Credit Quality

Bank Size Class	Number of Banks	O+G Loans / Total Assets		Nonaccrual O+G / O+G Loans	
		Mean	Median	Mean	Median
Under $300 million	178	7.2%	5.9%	7.9%	2.6%
$300 million-$1 billion	29	8.1	7.4	12.9	11.3
Over $1 billion	42	7.6	5.4	8.4	7.0

Definition: National banks that receive the special energy call report have ratios of oil and gas (O+G) loans to total capital of twenty-five percent or more.

Source: December 1985 OCC Special Energy Call Reports

1/ All data are on a fully consolidated basis and cover 197 U.S. banking organizations.

2/ The data in the table cover only cross-border and non-local currency lending. These result from a U.S. bank's office in one country lending to residents of another country or lending in a currency other than that of the borrower's country.

3/ In addition to the lending covered in the tables, banks reported $95.8 billion in local currency loans and other claims and $68.0 billion in local currency liabilities held by their foreign offices on residents of the country in which the office was located (e.g., Deutsche Mark loans to German residents booked at the German branch of the reporting U.S. bank). These types of local currency assets are excluded from the data in the tables.

4/ These columns show the amount owed to U.S. banks by borrowers residing in one country that is guaranteed by residents of another country. The guarantor can be a government entity, a bank, or a private non-bank entity. Amounts owed U.S. banks by a branch in the reported country, where the head office of the borrowing bank is outside the reported country, are treated as being guaranteed and are included in column 2.

5/ Includes amounts borrowed by the foreign branches of banks headquartered in the reported country. Also, includes guarantees and similar instruments issued by the reported country's banks that cover repayment of borrowing by non-residents.

6/ Amount guaranteed by non-bank entities in the reported country that cover amounts owed U.S. banks by borrowers located outside of the reported country (e.g., a guarantee issued by a German company to cover a U.S. bank borrowing by its Belgian subsidiary would be reported in this column on the German country line).

The total capital of the reporting banks, including equity, subordinated debentures, and reserves for loan losses is: all reporting banks $101.9 billion; nine money center banks $40.7 billion; fifteen other large banks $20.0 billion; and all other reporting banks $41.2 billion.

The total assets of the reporting banks are: all reporting banks, $1,470 billion; nine money center banks, $616 billion; fifteen other large banks $279 billion; and all other reporting banks $575 billion.

EXPOSURES OF THE TOP 24 U.S. INTERNATIONAL LENDERS TO SELECTED LDCs (1)
(as of 9/30/85 - Millions of $)

	Argentina	Brazil	Chile	Mexico	Nigeria	Philippines	Venezuela
Citicorp.		3,339		2,822		1,386	
BankAmerica Corp.		2,674		2,730			1,458
Chase Manhattan Corp.	825	2,595		1,673			1,271
Manufacturers Hanover Corp.	1,345	1,969	688	1,672			1,015
Chemical NY Corp.		1,448		1,458			720
J.P. Morgan Co., Inc.	808	1,959		1,160			
Bankers Trust N.Y. Corp.		858		1,271			
First Chicago Corp.		816		885			
Continental Illinois Corp.	364	466		561			320
First Interstate Bankcorp		530		741			
Mellon National Corp.		497		461			
Irving Bank Corp.	232	384		363			462
Security Pacific Corp.		572		520			
Wells Fargo Co.		580		518			268
Marine Midland Banks		657		362			301
Bank of New York		272		256			
RepublicBank		248		270			
Texas Commerce Bancshares				301			
Bank of Boston	327	214					
InterFirst Corp.				249			
Republic N.Y. Corp.	152	181		262			
NBD Bancorp				184			
Crocker National Corp.							
First City Bancorp				163			

(1) As reported on the publicly available "Country Exposure Information Report" (FFIEC 009a) for 9/30/85. Banks report their exposure to individual countries on a confidential basis and, except for those exposures which exceed the lesser of 1 percent of total assets or 20 percent of primary capital, they are not subject to public disclosure. The absence of an amount in any column indicates that the bank's outstandings to that country (if any) do not meet the threshold for disclosure.

Reported amounts are claims outstanding (excluding local currency claims), after adjustment for third country guarantees.

Source: Federal Reserve Board and
Comptroller of the Currency